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CONSERVANCY OPERATIONS IN CHINA

By Sir FREDERICK MAZE, K.C.M.G., K.B.E.

Hydraulic Engineering in China

Hydraulic engineering is not an exact science, and the long history of China's struggle in past ages to endeavour to control her various water systems, in connection with irrigation and flood prevention and relief, discloses little reference to meteorology or the science of hydrology as now understood. The ancient engineers following the primitive methods of working then existing seemed to have possessed little technical knowledge, judged by modern standards, and their operations were principally confined to the construction of dikes and the canalisation, or bunding, of sections of rivers, etc. We find, for example, that the celebrated Yu was entrusted with the task of draining off the flood waters caused by a disastrous overflow of the Yellow river—known as "China's Sorrow"—on the surrounding plain; and that his services in connection with this exploit, and with the solution of other similar problems, were subsequently rewarded with the throne of China. He was afterwards known as Yu "the Great", (B.C. 2205-2197). Another notable engineer named Li-ping has been extolled on the page of China's history for his labours in respect of the improvement and regulation of the waterways of Szechuan (literally, Four rivers). His simple advice regarding hydraulic engineering in that area is still to be found in the Province engraved on stone to the effect that in order to preserve the neighbouring creeks and canals in serviceable condition, it is necessary for engineers to dig deep. He meant that dredging operations in such matters were better than the construction of dikes. But while this idea was capable of realisation in the case of comparatively shallow streams, it is not practicable where large rivers are concerned. The most modern and powerful dredging plants in existence at the present day, for example, could

not cope successfully with the colossal amount of silt deposit brought down annually by the Yellow river and the Yangtze river.

Turning to more recent times, we find that conservancy activities in China in respect of the improvement of rivers and harbours, etc., began after the establishment of treaty relations with the Powers, and were the outcome of foreign representations rather than the result of native enterprise. It should be considered, moreover, that in pre-Treaty times before the advent of large foreign ships, the accommodation available at Chinese ports was not unsuitable for a mercantile-marine composed of sailing craft of comparatively light draft and tonnage. But when the Treaties of 1842 and 1858 opened a number of ports to foreign trade, the urgency for better navigational facilities became apparent.

Shanghai as a Port

Shanghai is exceptionally well situated for commercial and shipping enterprise. It is almost equidistant as regards sea routes from Western Europe and the United States; and India, Malaya, Japan, Java and Australia have direct communication with Asia's Eastern seaboard. It is the principal entrance port of a nation of about 500 million inhabitants; is located on the banks of a river comparable to the Thames—the Whangpoo; and is within a few miles of the estuary of one of the longest navigable rivers in the world—the Yangtze—which has a watershed of 750,000 square miles; and serves a population of 200 million people living in the fertile Yangtze valley. It has been correctly asserted that "no other port in the world possesses as potential a field of supply and demand." The position of the flagstaff of the Maritime Custom House on the Bund is:—Lat. 31° 14' 20.38" N. Long. 121° 29' 00.02" E. Its population at the close of 1941 was about 4 million including nearly 70,000 foreigners, comprising some 9,000 Americans, 3,000 British, 4,000 French, 16,000 Russians and others.

The approaches to Shanghai are efficiently marked with lightships and gas-lit buoys; and latterly under normal conditions the harbour was accessible for vessels drawing up to 30 feet.

Plans were prepared and approved in 1930 for the ultimate provision of a fairway from the entrance lightship to the Bund possessing an uniform depth of about 35 feet. About five or six decades ago it became increasingly evident that unless the regulation of the Whangpoo were undertaken, modern foreign vessels would not be able to enter the port. Article XI of the Protocol signed in Peking on the 7th September, 1901, provided for the introduction of conservancy measures for the purpose of controlling and improving this important waterway, and a few years later in 1905 the Whangpoo River Conservancy was established by arrangement between the Government and the Powers. China consented, furthermore to make a grant towards the support of the scheme and to appoint an engineer versed in riverine work. Mr. J. de Rijke was selected for the post of Engineer-in-Chief. It should be mentioned that as far back as 1876 and again in 1898, this distinguished hydraulic engineer was requested by certain foreign interests in Shanghai to investigate and report on the condition of the Whangpoo. On the occasion of his first visit in 1876 a supplementary statement was issued by him regarding the fairway from Shanghai through the estuary of the Yangtze to the sea, and the view was expressed therein that the bar of the Yangtze, known as the Fairy Flats⁽¹⁾, could be improved by closing various small crossings and cultivating a channel through the shoals opposite the mouth of the Whangpoo. He believed, however, that dredging on the Yangtze bar was impracticable in the circumstances. At a subsequent period however, and after closer investigation, the opinion was advanced by him that so far as bucket-dredgers are concerned, this view remained correct, but that the problem had a better chance of success by means of suction-dredging. Actually, experience in 1935 in connection with experimental dredging in the estuary, as we shall see, confirmed the accuracy of this later judgment. When Mr. de Rijke took up his appointment in the new organisation in 1905, the "Woosung outer bar" (near the mouth of the Whangpoo) and the "Woosung inner bar" (in the "old ship channel") seriously affected navigation.

⁽¹⁾ A ship named the "Fairy" was lost on the adjacent banks.

The author of this article, Sir Frederick Maze, needs no introduction to our readers. His connection with the Chinese Maritime Customs as Inspector-General, before his retirement to Victoria, B.C., where he now lives, has given him an unusual knowledge of the conservancy work in China of which he writes. Sir Frederick will be remembered for his interest in and advancement of harbour and navigational facilities in China.

The river immediately above these points was then divided for a short distance into two separate channels by Gough Island, viz., "the junk channel", on the Shanghai side of the river, suitable for light-draft vessels only; and "the old ship channel", mentioned above, on the Pootung side of the river. From thence to the International Settlement, the river was considerably deeper, but in places narrow, with shoals and shallow patches—notably off Wayside, where a "bar" exists with a harder bottom than anywhere else in the neighbourhood. It was realised that these unfavourable conditions would progressively deteriorate; and that the port of Shanghai could not be developed on modern lines, commensurate with the importance of its unparalleled position near the estuary of the Yangtze river, in the absence of regulation works in the Whangpoo.

Mr. de Rijke's Scheme

The principal features of Mr. de Rijke's comprehensive scheme comprised:

1. The closure of the "old ship channel" and the diversion of it to the "junk channel", thereby eliminating the right-angle turn near the inner bar, which formerly obstructed navigation in the vicinity;

2. The construction of a massive

curved training-wall at the mouth of the Whangpoo, for the purpose of deepening or dispersing the "outer bar"; and

3. The establishment of other training works where necessary.

"Normal lines", moreover, were arranged in order to keep the main channel within fixed limits of more or less uniform breadth. Near Shanghai they were some 1,400 feet apart; and became wider towards the mouth of the river. They were the final boundaries beyond which wharves and pontoons may not extend. To guide the flow of water between them, training works were devised, which were of various types with piles, brushwood mattresses, caissons, stone, etc. The "old ship channel" was closed by heavy dams, and the "junk channel" into which it was diverted then became a first-class waterway⁽²⁾. In other narrow sections, the river was ultimately widened by dredging.

In 1910 the Whangpoo River Conservancy ceased to operate owing to lack of funds; and the Government, since that date, have made no contribution towards the upkeep of conservancy work in Shanghai. Mr. de Rijke relinquished his post at the same time. The improvements effected in the lower section of the river by him may be gauged by the following figures:—

	Outer bar at Woosung	Inner bar above Woosung	Junk or "Astraea" Channel	Black Point Crossing	Wayside "bar"
Commencement of first Board-1906	15				
End of first Board-1911	21				
Removed by diversion.					

Whangpoo Conservancy Board

The Whangpoo Conservancy Board⁽³⁾ was established in 1912 in place of the above organisation, in conformity with an agreement between the Diplomatic Body in Peking and the Government. It functions under the Government's authority and, as originally constituted, consisted of three Chinese Government officials, as follows:—

The Commissioner of Foreign Affairs⁽⁴⁾ (since 1930 a special Secretary of the Ministry of Foreign Affairs);

The Shanghai Commissioner of Customs; and

The Shanghai Harbour Master⁽⁵⁾.

2 This reach of the river afterwards became known as the "Astraea" channel, through the accidental circumstance that on the occasion of its official opening a naval vessel of that name headed the procession of ships passing through the improved fairway. It would have been more appropriate to have named it the "de Rijke" channel.

3 The abolition of extraterritoriality will necessarily modify the original status of the Board, but it may be presumed that vital conservancy interests of the port will continue to benefit by modern administrative procedure; and will not be deprived of foreign technical advice. This will also apply to the taking over of Shanghai by the Communists.

4 The post of Commissioner of Foreign Affairs was abolished in December, 1929.

5 Mr. Ferd. Tyler, the Coast Inspector, was originally proposed as the third Director of the Board. His wide experience and intimate knowledge of the subject rendered him especially suitable for the post.

leadership the Board more than fulfilled the requirements originally laid down, and the river improvements which he devised, kept pace with the progressive demands of his day. The elimination of the inner and outer bars, and other improvements in the lower sections of the Whangpoo, were due to the general plan conceived and executed by Mr. de Rijke, as already mentioned, which consisted mainly of training works; and the subsequent improvements effected later were the logical development of his original scheme.

Plans for Harbour Improvement

Mr. von Heidenstam submitted proposals for the further regulation of the river; an extensive dredging programme was introduced; and a hydrographic service was established on the Whangpoo, including automatic time-gauges. At a later date he arranged for a special investigation of the Yangtze estuary, etc., in cooperation with the Coast Inspector's Office of the Maritime Customs, in order to ascertain whether changes were occurring there which might affect the welfare of the port. The plan finally drawn up by him for the development of Shanghai on modern lines as the premier port on the Chinese sea-board was submitted to an international Committee of Consulting Engineers composed of harbour specialists, nominated by the Consultative Board; and the following members of this Committee assembled together in Shanghai on the 15th October, 1921: Major General W. M. Black, U.S. Army, retired. Formerly Chief of the Engineering Corps of the United States Army; Mr. I. Hiroi, Adviser to the Japanese Government on Japanese ports; Mr. P. G. Hornell, Consulting Harbour Engineer; Sir Frederick Palmer, Consulting Engineer of the Suez Canal; Mr. L. Perrier, formerly Chief Engineer in Netherland Indies; and Mr. von Heidenstam, Engineer-in-Chief of the Conservancy Board, who was selected as Chairman of the Committee.⁷

In the preamble of their Report it was stated that "the Whangpoo Conservancy Board had had the Shanghai harbour question under consideration since 1916, and, in addition to their scheme for improving the approaches to the Yangtze, they had formulated various projects from time to time such as a ship canal to Hangchow Bay, with a *port de vitesse* there; and the damming up of the Whangpoo, etc. They have

The declared duties of the Board were:—"To provide and maintain a deep channel in the Whangpoo; to undertake, where necessary, works to still further improve the existing channel; to assist riparian owners by special dredging off their respective wharves, and undertake reclamation and bunding operations on their behalf at reasonable costs; and to cooperate with the Maritime Customs Authorities in connection with the removal of wrecks, sounding, etc." The Board controlled its own funds and finances. Its income consisted of a Conservancy Surtax of three per cent on Maritime Customs dues; one and a half per mille on duty-free goods; 0.045 per cent on treasure; and the proceeds from the sale of foreshore lands⁽⁶⁾. Within the tidal limits of the Whangpoo, it was authorised to veto operations likely to prove harmful to the river, and it should also be observed that a Consultative Committee or Board, consisting of one Chinese and five foreign members representing the five nations having the greatest tonnage entering Shanghai, held a watching brief in respect of conservancy policy, but had no executive authority.

Mr. von Heidenstam, Royal Swedish Corps of Engineers, was appointed Engineer-in-Chief of the re-organised Board, and proved an able successor to Mr. de Rijke. Under his active

6 The river foreshores—whether formed by tidal accretion by reclamation—within the Board's jurisdiction, under the stipulation of a supplement to the Conservancy Agreement of 1912, were vested in the Board and became purchasable by owners in conformity with certain terms. This process in the Shanghai area is termed "Shengkong". The proceeds accruing therefrom aggregated in the past considerable amounts; but there was an overlap of jurisdiction, and the mistaken policy of placing moneys ordinarily appertaining to territorial authorities in the hands of a quasi-foreign controlled organisation became a perennial source of misunderstanding and ambiguity of tenure. As a Director of the Board I endeavoured to have this arrangement cancelled or at least reduced to nullity.

7 Dr. Herbert Chatley, Chief Assistant Engineer, attended the meetings and co-operated in the drafting of the Report.

also obtained advice from various Consulting Engineers on the problems involved, and, finally, a number of projects have been sketched out and considered by this Committee during their session in Shanghai. It is therefore believed that no serious responsibility for the solution of the Shanghai harbour question has been overlooked by the Committee. It is considered unnecessary to go into these proposals here, or to give all the reasons for and against each one of them. The main recommendations herein made, are considered manifestly preferable to other possibilities, and no doubt exists in the minds of the Committee as to their general suitability. The investigations made show that it is possible to overcome all the deficiencies under which Shanghai now labours, at a reasonable cost, taking into consideration the benefits to be obtained. Adequate depths can be secured in the approaches and in the harbour itself as and when required; additional and improved wharf accommodation can be provided, and efficiently equipped in small units as may become necessary; co-ordination of control can be effected without detriment to existing interests; all provided the Government will, in the interests of the Chinese people who will mainly benefit, delegate the necessary power to a competent body." They confirmed the reports already issued by the Board regarding the estuary and endorsed the opinion that there was a reasonable prospect of permanently improving the South channel, or Southern approach to Shanghai, by dredging only. They also concurred with the Engineer-in-Chief's view that in order to provide for the entry of vessels drawing about 35 feet, it would be necessary to deepen the Yangtze bar some 9 feet. At ordinary high-water the depth was then about 28 feet above the crest of the Fairy Flats, and making allowances for clearance and wave action, etc., and for the fall of 1 foot of the tide during the ship's passage across the bar,—a distance of some 20 miles—a depth at neap high-water of 37 feet would be necessary, or a deepening of 9 feet on the crest, by suction-dredging. As regards the harbour itself, they placed on record an admirable counsel of perfection based in some cases on suggestions previously ventilated by the Board. The gist of their recommendations included—among other ambitious projects—the establishment of a Harbour Trust; the reservation under the Board's jurisdiction of all areas between the high-water lines for potential harbour, industrial and other purposes; the provision of mail steamer accommodation near the mouth of the river; and berthing 2,500 feet in length for four or five vessels at suitably equipped river-side wharves with transit-sheds; canal frontage for small craft at the Point reclaimed land, with rail communications when required; and it was suggested that all cargo of an inflammable nature, including oil, etc., should be segregated,—the Board subsequently selected Gough Island for this purpose, but owing to insuperable difficulties with land speculators armed with apparently authentic Title-deeds, etc., this and other projects

could not be developed on the lines originally planned.

It should be noted that in order to carry out some of the proposed works mentioned above, an essential preliminary was to secure the delegation of authority for the Board's control over the land concerned, with power to develop it. Therein lay the chief difficulty. In China riparian land-owners enjoy certain water-rights regarding their respective properties, and it is generally more profitable to arrange private sales, rather than dispose of tracts of foreshore-land for harbour development. The island site at the Point, for example, was reclaimed from the riverbed by the Board, and the lease-holders ultimately assumed control at nominal rates by the Shengkong procedure. It was originally ear-marked by the Board, on the recommendation of the above Committee, for the construction of important harbour works including wharves, etc., but claimants appeared with officially stamped leases who declined to surrender their property for harbour improvement purposes. In these circumstances the Board was unable to proceed with the execution of this important public work. And, as regards the proposal to establish a suitably constituted Harbour Authority for the Port of Shanghai, it may be incidentally mentioned that in the year 1926 the Commissioner of Customs, myself, brought the matter to the notice of Marshal Sun Ch'uan-fang and Mr. Chang Ching-kiang, a distinguished Elder-statesman of the Nanking Government. Both of these gentlemen expressed their approval of the plan in principle, but for a variety of reasons the proposal was side-tracked, and has since remained in abeyance. In 1927, however, I drew up relevant Regulations in consultation with the Engineer-in-Chief, and the draft was submitted to the Board for future record. In the meantime Shanghai's harbour continued to be administered by a much smaller executive staff (composed of Maritime Customs officials) than is found elsewhere in similar conditions—Shanghai being numbered among the five or six largest ports of the world, in point of tonnage.

The Committee's report remained under the consideration of the Government for an indefinite period, and was the subject of recommendations from time to time by the Diplomatic Body. In view of the growing menace of Japanese invasions into Chinese territory in the North; coupled with regional disturbances elsewhere throughout China, no definite decision was arrived at, with the exception of the approval of experimental dredging on the Yangtze bar and the deepening of the Shanghai end of the Soochow creek, an important local waterway connecting the famous town of Soochow with Shanghai.

In 1930 I, in the capacity of Inspector General of Maritime Customs, and having previously served as a Director of the Whangpoo Conservancy Board for a period of over three years, brought these two outstanding questions to the notice of the authorities concerned in Nanking and pointed out that unless something was done to improve conditions in the approaches to Shanghai,

there was a possibility that deep-draft vessels might be compelled to seek more favourable distributing centres elsewhere, in which case, Shanghai would remain a second-class port with the result that trade and revenue would decline. And, as regards Shanghai's most important subsidiary waterway, the Soochow creek, I further declared that large native shipping interests would continue to suffer grave disabilities in the absence of the adoption of conservancy operations on the lines repeatedly advocated by the Whangpoo Conservancy Board. The views thus set forth by me were accepted *in toto*, by Dr. T. V. Soong, the Minister of Finance, and the Government eventually sanctioned the execution of both proposals.

Mr. von Heidenstan resigned in 1928, and it should be recorded that at the close of his outstanding services as Engineer-in-Chief the Shanghai river had a least navigable depth of 20 feet at lowest low water, and, as the neap tide rises 6 feet, a through high-water depth of 32 feet had been made available every day of the year. Dr. Chatley, M.Inst.C.E., who had been associated with him for some years past, was appointed by the Board to the position of Engineer-in-Chief in his place. His high scientific attainments, wide experience and knowledge of conservancy problems affecting the port of Shanghai qualified him for the important office he was thus called upon to assume. As has been observed above, Mr. de Rijke⁸ in the first instance devised elaborate training works which improved conditions in the lower section of the river and laid the foundation for subsequent improvements; and his able successor, Mr. von Heidenstan, successfully continued a progressive policy and introduced important dredging programmes for the further regulation and improvement of the Whangpoo.

Work on the Yangtze Bar

Dr. Chatley, in addition to the management of current conservancy work in the Shanghai river, gave special attention to the question of dredging the Yangtze bar, a proposition to which he had devoted close study in the past. When the Government sanctioned the project for deepening the Fairy Flats, etc., referred to above plans and specifications were drawn up by him, assisted by his technical advisers, for the construction of two suction-dredgers of the most modern type for work on the bar of the Yangtze, capable of dealing

⁸ As a further illustration of the success of Mr. de Rijke's skilful dispositions in respect of training works, etc., it is appropriate to recall that when the Japanese forces swept down the coast of China and occupied Shanghai and the Lower Yangtze in November 1937, all conservancy work in Shanghai ceased. The Whangpoo dredging plant was seized; and the new suction-dredger "Chien She" was sent to Kobe. But notwithstanding the fact that the Conservancy Board were unable to continue routine work in the Whangpoo, it is a singular fact that the navigability of that river suffered only minor deterioration. The fairway, it is true, narrowed a little in some places, but the depth of the river seldom or never fell below the high-water depth on the Fairy Flats. In 1939 a tanker entered Shanghai drawing over 29 feet—two years after conservancy operations stopped.

with an annual output of some ten million cubic yards of mud. The first of the two dredgers, the "Chien She," arrived in Shanghai in April, 1935, and passed its contract trials, viz., a guaranteed output of 25,000 cubic yards, dredged and dumped two miles away in 10 hours. The second suction-dredger named the "Fu Shing"—an improved "Chien She"—was completed in Elbing during the progress of World War II, and was laid-up in Danzig.

Dr. Chatley selected the northern fork of the South Channel for exploitation because the deepest channel to the sea passed through this section, which seemed to express, therefore, a natural tendency. The quantity of material, furthermore, to be removed to produce a deeper channel along this route, was considerably less than would have been involved in cutting through the Fairy Flats. It was firmer material, too, and although more difficult to remove, there was a better prospect of the cut remaining intact without compelling the removal of the flanks back to very flat side slopes. Actually, the initial stages of his arrangements proved satisfactory, notwithstanding a certain amount of cross current⁹ and a tendency to form sandy "middleground" at the crossing.

The Pacific War having rendered the continuation of conservancy operations in the Shanghai area impossible for the time being, Dr. Chatley retired in 1938; and Mr. Hsuh Cho-pin, the Assistant Engineer-in-Chief, was appointed.

⁹ In the course of an address before the Council of the Institution of Civil Engineers, on the Principles of Drag-suction Dredging (Session 1938-1939), Dr. Chatley remarked, inter alia:

"... The tidal current on the Yangtze bar is rotary, the particles of water moving in a long ellipse, and the axis of this ellipse is inclined to the thalweg or valley line over the bar at an angle of about 40 degrees. Consequently at the time of full-flood—or ebb-tide—the current, which at spring tides may rise to almost six knots, is on part of the cut strongly athwart the axis of the cut. The dredger is therefore obliged to steam obliquely towards the current so that the combined velocity will give the proper direction. Only when the tides are weak is it possible to dredge with the current as since the cutting speed rarely exceeds three knots there must be a margin for steering, and if there is any obliquity of current the triangle of velocities gives an impossible position."

"When dredging in the stronger tides with a lateral set, the mouth of the dredgehead is not square to the cut and a loss of entry-area occurs. In addition to this there is a much reduced residue of thrust since the skin friction of the ship, and consequently the resistance to propulsion, are increased by the current. The vessel has a total of 3,000 indicated horse-power available in the propelling engines and can travel at about 11 knots in deep water with full hoppers, but even so it has been considered advisable to provide a larger percentage of thrust-reserve in the new ship. The pipe ladder is pressed strongly against the s'de of the well by the transverse reaction, and it has been found expedient to cut a hole in the side of the dredgehead to increase the influx of spoil."

"This transverse current has also been the principal reason for adopting the centre-well type of dredger, which allows the vessel to be swung easily around the point of contact (the drag-head). In the older Fruhling vessels stern-wells were usual and have many advantages from the point of view of the arrangement of the machinery, but are much less suited to good steering in transverse currents....."

Reverting to the question of the Soo-chow creek, it may be added that this busy stream was subjected formerly to frequent blockage caused by the innumerable number of craft operating in its narrow waters; and navigation was also impeded by boats lying idle and made fast to the shore.

Dredging by the Chinese municipal authorities in past years proved inadequate, and the consequence was that silt in the creek increased and jams in the channel became frequent. Intense congestion sometimes prevailed in various sections for considerable distances, and in one instance the Maritime Customs Harbour Master reported a block of 13 miles deep, when traffic remained at a complete stand-still for many hours.

The Whangpoo Conservancy Board offered to dredge the lower or Shanghai section of the creek with their modern plant at a nominal cost, on behalf of the Chinese authorities; work began in 1930 and proved successful, thus rendering through traffic possible without tedious interruption and vexatious delay.

The Position in Tientsin

Tientsin is the principal trade and industrial centre in North China, situated at the junction of the Haiho and the Grand-canal.¹⁰ It is the sea-port of Peking and was formerly the unofficial residence of the Viceroy, whose headquarters was at Paotungfu, the provincial capital of the metropolitan province of Chihli (literally "Directly ruled or obeying"), since renamed Hopet ("North of the River"—the Yellow River.) The commercial development of Tientsin in the past was retarded by its inferior communications with the sea. The Haiho from Tientsin to its mouth at Taku is a narrow and unserviceable stream with many sharp bends which increased the difficulties of navigation and seriously interfered with the flow of the flood tide, thereby reducing the scouring qualities of the ebb. The distance by road to Taku is about .35 miles and by water some 56 miles before the "cuttings" were effected. The question of improving the river to meet the requirements of modern steamer traffic was originally advocated by Mr. Gustav Detring.¹¹ The Commissioner of Customs, and it was mainly due to his exertions that conservancy operations were introduced in 1898. On the advice of Mr. A. de Linde, a local engineer of some note, a few cuttings were made across several of the bottle-neck tongues of land on the river banks which shortened the distance to the sea by several miles. It should be understood, however, that the primary object of removing the corners, as it were, was —

¹⁰ The neighbourhood of Tientsin was formerly the site of one of the ancient mouths of the Yellow River; and it is not impossible for extraordinary conditions to arise in the future which might again bring the lower section of this river back to the Northern regions of China—in which case the city of Tientsin might conceivably be obliterated.

¹¹ Mr. Detring was a personal friend of Grand Secretary Li Hung-chang, the Viceroy, and exercised considerable influence in the neighbourhood.

not to reduce the distance to the sea, but — to facilitate the flow of the tides, and at the same time eliminate the sharp corners of the stream, which formerly impeded navigation. Groundings at the bends were of frequent occurrence and, strange as it may appear, sometimes resulted in houses¹² on the edge of the river being destroyed. The plain on which Tientsin stands was formed by alluvial deposits carried by the silt-laden waters of the Yungtingho, referred to below; and the dwellings of the peasantry were sometimes built close to the edge of the Haiho in precarious positions, owing to erosion. In such circumstances when steamers ran ashore, hovels near the brink of the stream were liable to be damaged or demolished.

The Haiho Conservancy Board

A few years later, immediately following the Boxer movement in 1900, the Haiho Conservancy Board was created under the authority of Count von Waldersee, the head of the Council of Allied Generals in Tientsin. It was composed of the following delegates and members: Colonel Arlabosse, French member, representing the Tientsin Provincial Government; The British Consul, representing the Consular Body; Mr. Gustav Detring, Commissioner of Customs: Three members, one each nominated by the British, French and German Concessions; and Mr. A. de Linde, Engineer-in-Chief. Funds were provided by the T. P. G. and by the foreign Concessions. The first plan introduced by the new Board for improving navigation provided for more cuttings, which ultimately reduced the river distance to the sea to 36 miles—about the same as the overland route.

When the Tientsin Provincial Government was wound-up in 1904, the control of the Conservancy Board passed to the Chinese Government and its constitution was remodelled, as follows:—The Taotoi and Superintendent of Customs; A Consular representative, selected by the Consular Body to serve for one year; and the Commissioner of Customs. Mr. de Linde continued to act as Engineer-in-Chief, and it should also be stated that a representative of the shipping community had a seat on the Board, but no vote. At the instance of the Diplomatic Body it was arbitrarily arranged that the Consular representative functioned as Chairman, notwithstanding the fact that he served for one year only, and that the Board was technically subject to Chinese jurisdiction.

The Taku Bar

In 1906 Mr. T. T. H. Ferguson, Deputy Commissioner of Customs, was requested by the Board to supervise operations on the bar in order to enable

¹² The habitations of the poor classes in North China are constructed of mud, reinforced by Kao-liang (fall millet) stalks. The principle of reinforced buildings in the East was thus in existence before the idea was adopted by occidental architects. But like many other ancient inventions in China, it remained in the initial stages of development and was not improved on scientific lines.

him to experiment with a special raking apparatus which he had invented. The rake was towed over the bar channel and the deposit which it stirred up was carried away by the cross-current. His device proved moderately successful, and the fairway was temporarily deepened by its agency about a couple of feet. It was recognised, however, that it could scarcely be expected to be as effective as ordinary dredging, and could not possibly cope with abnormal deposits of sand on the bar. But it served a useful purpose for a period, and was the forerunner of systematic dredging on more orthodox lines.

As we have seen, the Engineer-in-Chief's activities in the early days of the Board were confined chiefly to straightening the course of the Haiho by eliminating some of the bends, and by experimental "raking." Conditions on the Taku bar are mainly dependent upon the state of the Haiho, which, in turn, periodically suffers by deposits of silt brought down by the Yungtingho. When the latter is in spate it has been known to reduce the depth in the fairway between the swinging-berths in the Tientsin harbour as much as nine feet in forty-eight hours; and in such circumstances dredging operations for the time being become impossible and the bar channel deteriorates accordingly.

The Yungting river¹³ rises in the hills West of Peking, and for ages past has been a menace to the inhabitants of the plains over which it flows. Owing to deforestation in its catchment area enormous quantities of silt are carried by it, which in the course of time has raised and extended the plain between the Western hills and the sea. Its lower section more or less loses itself in its own sand and discharges into a sort of "delta" on the plain, some ten to twenty miles above Tientsin. In normal times the river continues this plain-forming process, and its waters do not adversely affect the Tientsin river. But in time of severe and continuous rains floods occur and the dikes enclosing some of its upper reaches are liable to burst with disastrous results. On such occasions it advances beyond its own "delta" and joins the Haiho, bringing with it silt on a scale so vast as to render it impossible for the Board's dredging plant to cope with it. Steamer navigation in the river then becomes temporarily impossible; and the bar channel is flattened.

In the year 1916, the Commissioner of Customs—myself, who, as we have seen, was also a Director of the Haiho Conservancy Board—formed the opinion that unless something was done to regulate on scientific lines the affluents of the Tientsin river, including the provision of a new outlet to the sea for the Yungtingho, dredging operations on the bar and the Haiho would continue to be periodically upset and would re-

¹³ Locally known as the Hunho or Muddy river. According to somewhat vague tradition its name was altered to "Yungtingho" or "Eternally-fixed river" by the Emperor Yung Cheng; the idea apparently was to endeavour to arrange for the permanent regulation of this unstable stream by the ipse dixit of a Monarch.

main mere palliative measures of little permanent value. In other words, I enunciated the principle that the radical solution of the Taku bar issue depended upon conditions which lay outside the immediate activities of the Board and beyond its control; that it was essential to place the Chihli river-system under the supervision of competent engineers in order to endeavour to coordinate the interests of navigation and the drainage of the province,¹⁴ as far as possible; and that local conservancy operations in themselves were inadequate. I recommended, therefore, the establishment of a joint-commission composed of Chinese and foreign experts to study the matter and advise in respect of future conservancy policy. Although my proposal was accepted and passed by the Board some time before the disastrous floods of 1947, it was not until the Spring of 1918 that the Government signified their approval of the proposal and sanctioned the establishment of what was afterwards called the "Commission for the Improvement of the Chihli River System."¹⁵ Their decision was doubtless influenced by the calamitous effects of the recent floods.

Mr. Hsiung Hsi-ling, a former Prime Minister of China, was appointed by the Government the head of the new organisation; and the inaugural meeting took place in Tientsin on the 20th March, 1918. Congratulatory telegrams were received on that occasion from the President of the Republic, the Dean of the Diplomatic Body and the Inspector General of Customs. It may be noted, incidentally, that the President

¹⁴ The drainage of the Chihli or Hopeh province has always been a difficult proposition, partly due to the mistakes made by former Chinese engineers. Doubtless the old-world methods of Conservancy, which came of some two thousand years of actual experience and continuous effort, were suitable for the immediate requirements of the day, but they seldom included provision for future development. The engineers who constructed the Grand-canals, one of China's greatest public works, overlooked the fact that their plans would to some extent disturb the natural drainage system of the provinces through which the Northern section of the Canal passed. Nearly all the rivers in China flow from West to East and the Canal runs from South to North; it thus interferes with the course of the rivers it crosses. It should be noted, moreover, that in the event of extensive rains occurring simultaneously in the catchment areas of the Yungtingho and the Haiho, the latter stream is unable to carry the storm-waters to the sea, and disastrous floods occur over a wide area. For more detailed information regarding this question vide "Pulling Strings in China" by Ferd. Tyler. London, Constable & Co., 1929.

¹⁵ The "North China Daily News"—the leading newspaper in Shanghai printed in English—referring to the event stated: "We gladly hail the opportunity of congratulating the Chinese Government on its wise and enlightened action in respect of the Chihli Conservancy Commission, as detailed by our Peking correspondent. The Commission itself is a thoroughly efficient body, worthy of the executive powers with which it has been entrusted. An extensive survey is contemplated of the area of the chief rivers with a view to correct the mistakes of past centuries and of planning a comprehensive scheme of restoration. Nothing more practical has been done by the Republican Government than the appointment and endowment of this Commission and it is earnestly to be hoped that money will not be stinted for the far-reaching work that can be done."

concluded his message with a few lines in verse, which were quoted in extenso by Mr. Hsiung in his opening address—the following is a translation of them:

"The great flood has caused my people's miseries;

The downrush of mad water has demolished embankments and dikes.

In haste let Engineers be consulted for conservancy measures.

For in this way the Nation as well as the Government will be benefited.

The Honourable Emperor of the ancient Han dynasty¹⁶ in person led the people to work on the damaged rivers;

And in return for His zeal Heaven blessed His Reign with prosperity.

Let the Commission vie with the illustrious Emperor in the merits He achieved,

And secure for modern China equally great prosperity."

An executive committee was nominated to serve under the authority vested in Mr. Hsiung, composed of:—Admiral Woo Yu-ling;¹⁷ Mr. Ferd. Tyler (Maritime Customs Coast Inspector); Mr. Yang Pao-ling (Engineer); Mr. von Heidenstam (Engineer-in-Chief of the Whangpoo Conservancy Board); Mr. H. van der Veen (Engineer); and Mr. T. Pincione (Engineer-in-Chief of the Haiho Conservancy Board).

Mr. Tyler was elected the chairman of the executive committee, and the personnel of the Commission was enlarged at a later date by the appointment of Mr. Rose, an engineer who had been connected with conservancy operations in India. A comprehensive surveying programme for work throughout the province was organised; and after careful research and prolonged investigation a final and instructive report was issued in 1925 setting forth certain recommendations, known as the Grand Scheme—the principal features of which were the creation of a new channel to carry the turbulent waters of the Yungtingho to the sea, south of the Haiho; and the construction of a "detention reservoir," including regulating gates, for reducing flood peaks, etc. The undertaking was estimated to cost about Tls. 33 million¹⁸ and its execution would have involved the appropriation of large areas of land. The Commission was ultimately dissolved owing to lack of funds, and their proposals, while accepted in principle, were shelved for the time being.

Improvement of the Haiho

The question of coordinating the drainage of the province and the navigational interests of the port was brought forward again in 1927, when

¹⁶ B.C. 206—A.D. 25.

¹⁷ The appointment of sailors to function on a Board of Engineers may appear incongruous. The problems of the Yungtingho are in some respects analogous to those connected with the Yellow river, and at an earlier period, Mr. Tyler had been invited by the Vice-roy of Chihli, Yuan Shikai, and the Governor of Shantung, Chou-fu, to investigate conditions on the Yellow river. He was afterwards created an Associate of the Institution of Civil Engineers, on the strength of the report he submitted on that occasion.

¹⁸ The Tientsin tael (a weight, not a coin) was then worth about half a crown or thereabouts.

severe floods in the Yungtingho once more overwhelmed the Haiho with silt, rendering it impossible for steamers drawing more than ten feet to come up the Bund at Tientsin. The interruption of trade prompted the Minister of the Interior in Peking to convene a conference to deal with the matter. And in the following year a new organisation was formed named "The Commission for the Improvement of the Haiho." It was proposed to convert, as originally projected, a large area to the north of Tientsin into a "sedimentation basin"—a sort of water-works "filtering-bed"—through which the silt-laden flood waters of the Yungtingho were to pass and emerge after clarification into the Haiho. The plan operated with some success for a time, but the appropriation of, and payment for the land required raised fresh misunderstanding; and the Japanese descent upon North China shortly afterwards, rendered it impossible for the Commission to continue their work.

To return to routine conservancy operations on the Taku bar—work is periodically interrupted by the accumulation of ice in the winter. The cold is severe at Tientsin and throughout the gulf, but it is ordinarily possible to keep the Haiho open to navigation by means of ice-breakers. It should be considered, however, that where the gulf of Chihli is concerned, the term "ice-free port" is subject to misconception. As a matter of fact, navigation in the gulf is liable to be stopped by icefields forming at sea, as well as by the collection of ice at the ports.

In the early Spring of 1917, huge quantities of ice accumulated in the Haiho and at sea beyond the limits of the bar channel. Effective ice-breaking operations became impossible in these conditions, and the bar-channel and river were closed to steamer traffic. In the fall of the same year the flood submerged a considerable portion of the Haiho hinterland and covered an area of over 15,000 square miles. The bar-channel was obliterated by unprecedented shoaling and the port was again deserted. It was estimated that more than a million cubic yards of silt were deposited in the channel on a width of 500 feet. When conservancy work was resumed the Engineer-in-Chief decided to shift the direction of the fairway across the bar to a new alignment in continuation of the short Deep Hole channel. This necessitated alterations in the position of the Taku lightship, entrance buoy and bar light-boat. The Taku bar leading-lights on shore (with a range of some eight or ten miles), were dismantled and re-erected in a new position in transit with the Taku lightship, thus serving for the entire length of the re-aligned channel. While dredging work was in progress, another channel to the Southward—known as "the unofficial channel"—was used. This latter approach may be said to have formed a natural line across the bar, as it had been created mainly by the scour of the ebb tide—whereas the maintenance of the official channel had hitherto been de-

pendent upon dredging, since the tides set obliquely across it an angle of about ten degrees. It may be supposed that the channel already formed by nature was the one which should have been selected for improvement. It should be understood that the maintenance of a "natural channel" in such cases is dependent upon conditions which may render permanency of direction (in the absence of dredging) impossible—in proof of this, the so-called "natural lines" on the Taku bar in past years have been subject to periodical variation. The direction of the Deep Hole channel, on the other hand, remained more or less constant, and the opinion was formed, therefore, that the most satisfactory results would be secured by its extension and improvement. Actually, subsequent experiments proved the correctness of this view.

In order to stop further encroachment of silt from the adjacent shoals on the fairway below Taku, preserve the channel across the bar and prevent, as far as possible, the formation of an inner-bar, it was decided to build groynes at the river mouth, which included certain reclamation works.

The proposed execution of these important undertakings appeared to me to afford a suitable opportunity for submitting to the notice of the Provincial authorities a scheme for the establishment of a deep-water port at the mouth of the Haiho, to be equipped with modern wharves, warehouses, coal yards and railway sidings, etc. The Engineer-in-Chief reported that from an engineering standpoint the plan was feasible; that it would not be unduly costly; and that the position was suitable.¹⁹ The river at the selected site is straight; is about 1,000 feet broad; and is comparatively deep—thus possessing potentialities for the development of shipping facilities. It was realised that the provision of accommodation for deeper-draft steamers at the port of Tientsin would benefit the trading of North China; would form a convenient centre for the coal business and for the storage of oil and inflammable cargo; and would enable ocean-going steamers—as distinguished from coasters—up to a draft of about 25 feet, to discharge and load their cargo direct, instead of transhipping it at Shanghai for transport to Tientsin in coasting vessels, or discharging it into lighters some eight miles off the land in an exposed anchorage outside the Taku bar.

The Civil Governor of the Province, Mr. Tsao Jui, evinced considerable interest in the proposal and promised to support it; and the comments of the local press—notably the "Peking and Tientsin Times," under the able editorship of Mr. H. G. W. Woodhead—were favourable. The project remained in abeyance until the Japanese oc-

cupation of North China (1937-1945), when it was revived and active steps were taken by the Japanese authorities to develop it on more or less the original lines.

The preceding lines refer briefly to the efforts made by the authorities concerned in the past to introduce measures to meet modern shipping requirements at the port of Tientsin. The question of the future development of that important commercial centre, which serve a vast and potentially rich hinterland; and the improvement of harbour and navigational conditions there will rise again for investigation. Meanwhile the Haiho Conservancy Board have on record detailed plans for the continuation of essential routine conservancy work on the bar and in the river; and for the regulation on scientific lines of the connecting waterways of the Province. And furthermore, they submitted an initial plan in 1919 for the establishment of suitable harbour accommodation for deeper-draught steamers at the mouth of the Haiho or Tientsin river.

The improvement and conservation of China's rivers and estuaries in recent times was, of course, primarily outside the sphere of the Maritime Customs' responsibilities, but nevertheless the Commissioners in the past have been closely associated with the inception, growth and direction of conservancy activities throughout China. Some of the principal works, indeed, owed their conception to the initiative of local Customs authorities, notably the first Haiho Conservancy operations; the establishment of the Commission for the Improvement of the Chihli River System, etc.; and the Min Conservancy, Foochow. It is logical to expect, however, that the direct control of the Maritime Customs Revenue, Lights and Harbour Departments, and also Conservancy operations generally in China will revert, like the Postal administration and the Quarantine service in the past, to the direct jurisdiction of relevant Ministries.

In conclusion, I suggest that it should be considered that the future welfare of the ports of Shanghai and Tientsin depends to a large extent upon the resumption of Conservancy work on the lines originally established and successfully maintained by the Whangpoo and the Haiho Conservancy Boards, respectively, over a period of years. It seems to me to follow, therefore, that the Chinese authorities concerned would be well advised, in the general interest of trade, shipping and finance, to be guided by the advice of competent and experienced foreign hydraulic engineers, until such time as a qualified and reliable native executive is effectively organised.

¹⁹ A sketch plan illustrating the Engineer-in-Chief's reclamation plan is given in the Tientsin Annual Trade Report, published by the Chinese Maritime Customs, for the year 1919.

Living and General Social Conditions in Hongkong

LIVING CONDITIONS

Hongkong's wealth comes from an entrepot trade and the processing of materials rather than the production of raw materials or primary products. There are no large estates and the agricultural community forms a numerically small but stable proportion of the population, living in small brick built villages. There is a big fishing community, which mostly lives afloat in junks and sampans.

The urban area, on the fringes of which the majority of the more important industrial undertakings and factories are established, is concentrated round the harbour, which divides it more or less equally in two. The central area of Victoria is mainly devoted to business houses and shops, though there are many small factories scattered throughout, particularly those housed in one or two floors of tenement buildings. The Naval Dockyard (besides the Butterfield & Swire docks located at Quarry Bay) is the only industrial undertaking which employs labour on a big scale and which is also situated in the central area. The harbour itself has on the Hongkong side an extensive playa and on the Kowloon side docks, with many large warehouses ancillary to both. Business on the playa, and in docks and warehouses employs a vast stevedore and coolie force of a casual or semi-permanent nature. The majority of the working population lives within the urban area. Brief notes follow on the cost of living for them, and their housing, transportation, recreation, and educational facilities.

Cost of Living

Surveys indicate that the retail price index (which has been taken as 100 for the period January—March 1939) fell from 558 for the quarter ending March 1948 to 514 for the quarter ending March 1949. (The lowest index figure since March 1947 was 503 for the quarter ending December 1947). The biggest single influence on the retail price index is the cost of rice, the staple food of the working population. Since 1939 the highest rise in prices is that of food — over 400%; the lowest is in public utility service charges, including transport — under 300%. The real wages of artisans have undoubtedly risen since 1939; those of semi-skilled workers have also probably risen. Unskilled labour is little or no better off than in 1939, though from the nutritional and health points of view there appears to have been some advance. The real wages of clerical and technical workers have certainly not risen; if anything they have fallen.

A simple rationing system for imported rice was instituted in 1945. Till the end of July the ration was 3½

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catties per person every ten days, increased to 4½ catties in August. There were six extra issues of rationed rice coincident with Chinese festivals, and a number of bonus issues. The quality of rationed rice, a very important consideration, as the average workman usually buys the best quality he can afford, improved and can be classed as good second quality. It is not claimed that the rice ration is entirely adequate for the normal worker, who necessarily supplements his ration by buying open-market rice, but it has a useful stabilising effect in the rice market generally. Ration tickets are only granted to those workers who can prove seven years' residence in the Colony.

Housing and Accommodation

The working population, with the exception of those engaged in fishing and agriculture, lives mainly within the limits of the city of Victoria or of Kowloon, the standard dwelling house being the ground floor. The poorer sort of worker lives in a cubicle on one floor, more rarely the whole floor of a tenement; the better off usually have a floor for each family. The older type of building is often dark, insanitary, and insufficiently ventilated, but is being gradually replaced by tenements which are required to conform to statutory standards and which compare favourably with accommodation for similar classes of the population elsewhere in the Far East. Unfortunately the habits of the population itself and the general scarcity of accommodation lead to extensive overcrowding, which is difficult to control and which tends to nullify the better constructional features of the more modern buildings.

A very few undertakings provide some of their workers with specially constructed accommodation, either free or at a nominal rent. Among these are the Taikoo Dockyard which provides sufficient accommodation of a tenement type to house adequately the majority of its permanent staff. This Dockyard is situated some miles from the centre of the city, near the fishing village of Shaukiwan. It is further from the urban area than the majority of undertakings but is connected with the city by a public tramway. Other concerns which provide housing for their workmen are the Hongkong and Whampoa Dock Co., the San Miguel Brewery, and the Dairy Farm Company. In all cases the reason for providing accommodation is the comparative isolation of the working premises from main residential districts.

The Kowloon Wharf and Godown Company provides dormitory quarters for its coolie staff who come from ports on the China coast, whilst the spinning mills and other factories employing Shanghai labour also have dormitories for their men and women workers. It is common practice

among many small undertakings and in many shops to permit employees to sleep on the premises, but no special quarters are provided. Such accommodation offers little in the way of amenities, but there is probably as much privacy as in a cubicle in an overcrowded tenement; and a place in which to sleep and for which no rent is charged is a valuable addition to wages under present conditions.

The restoration of damaged or destroyed property in the urban area may be said to have been completed during the year, but there have been constructed few new houses the rents for accommodation in which would be within the means of manual workers or the less highly-paid clerical workers. Rents for all types of accommodation are high and demand proportionately too great a percentage of the worker's wage. To this in times of excessive overcrowding, as at present, must be added the evils of "key money" and the charging by landlords of illegal rents. The poorer type of worker often evades such costs by sleeping during the summer in the streets or by living in self-erected shacks on waste ground, which creates a difficult problem for the sanitary authority. During the year efforts to move these insanitary shacks to more healthy areas have met with a measure of success. Rents for a cubicle, which can be described as a partitioned portion of floor space about 8 feet square, are officially pegged at 30% above the pre-war rent, but in fact the percentage increase is usually very much higher. The increase extends even to the bed space, pre-war the cheapest form of accommodation. It is difficult to check this illegal raising of rents without the co-operation of the sufferers, and this is in most cases not forthcoming.

Transport

Good transportation facilities exist by tram, bus, or harbour ferry and the cost of transport has risen proportionately less than wages generally.

Recreation

For lack of space at home workers must perchance seek their recreation outside. There exist a great number of clubs, which may or may not be associated with trade unions, both for manual and office workers. Some of these clubs may be assisted by employers, as is the case in Taikoo Dockyard which has a Welfare Officer, but amenities for recreation in most factories or concerns are very limited. Some firms have football or swimming teams organised from among their workers, both these pastimes being very popular. Cinemas and Chinese theatres are plentiful and reasonably cheap; they are very popular with workers. Gambling of various kinds is rife throughout the whole of society, and exercises a most pernicious influence especially on ill-educated manual workers. It is difficult to eradicate, as the Chinese worker has a great fondness for games of chance.

Education Facilities

Education for children of workers is frequently provided in vernacular primary schools run by guilds or unions of which the workers are members, but the standard of teaching is in general low, and the number of schools totally inadequate to meet the strong desire always felt by the Chinese population for education. Unfortunately too, teaching is often tainted with politics, but this year the Government obtained legislative power to close down schools which provided political indoctrination. The Government has a programme for increasing the number of its primary schools, where instruction is given in the vernacular. The cost of education has been kept low in government and grant-aided schools, but fees have risen substantially since the end of the Pacific War in those schools over which the Government does not exercise a measure of control. There was no general increase of fees during the year.

HEALTH AND NUTRITION

On the whole workers appear to be healthy and well nourished, and there has certainly been an improvement in the standard compared to ten years ago. It has been possible in the past year to note the growth of young persons which in most cases has been very satisfactory. If this is true for adolescents it is logical to suppose that the same is true of adults. Note has been taken in very many cases of the food being prepared for those workers in factories and workshops for whom meals are provided by the management; these are typical of the meals of most Chinese workers and appear to give a well-balanced diet. Rice is still the staple, but the use of flour in such things as bread and noodles, resultant upon the post-war shortage of rice, still continues. The majority of workers in heavy manual labour receive extra quantities of rationed rice, though in other respects their diet is the same as other workers.

Enquiries have revealed no obvious cases of industrial diseases. Measures to prevent lead poisoning, affections of the lungs by dust, skin diseases, etc., are enforced and there has been special insistence on good lighting in processes which might cause eyestrain. There has been an increase in the numbers of factories which retain the services of a doctor who may be consulted by the employees free or for a reduced fee. In certain cases the doctor pays regular and frequent visits to the factory concerned, which supplies free medicine. This will undoubtedly be of great benefit to all concerned as not only will disease be discovered in its early stages but absenteeism on the score of illness will be reduced.

The scourge of the population is tuberculosis which is being vigorously fought by the Medical Department and by a voluntary society. Tuberculosis is a widespread complaint and not confined to the industrial population. The disease is probably the result far more of general overcrowding in

houses than of conditions of work which, in most industrial undertakings and certainly in registered factories and workshops, are far more wholesome than in many of the workers' own homes.

GENERAL SOCIAL CONDITIONS

It is necessary to consider the sociological conditions of the working community in Hongkong against the greater background of China. In times of comparative quiet and relative stability in China the Colony supports a large labouring population, ample for its needs, with enough artisans to undertake the skilled work required in the shipyards, in industry, and in community services. The needs of the unskilled worker are simple and he lives on a subsistence level in dingy surroundings, on a plain diet, with a sufficient wage to buy cotton clothes, to rent a cubicle or bedspace, to smoke an occasional cigarette, and to send a little money to his family in the country. The woman worker is worse off, but can still afford to live. Even at the best of times the balance between subsistence and want is fine, and a disproportionate segment of wages is expended on rent. The artisan, clerical and technical classes are better off, but even so are constantly faced with the necessity for thrift. In such conditions the working community has been comparatively settled and a large proportion of it will have been born and lived all its life in the Colony, though in accordance with custom individuals may have been on visits from time to time to some town or village of China, which each will regard as his ancestral place. Only those who are more or less permanently in the Colony will as a rule have their families with them, but a tendency for new arrivals to bring their families with them was noticeable before the war. Such a period of normality, if it can any longer be so described, has existed in few out of the last 30 years, and the last time that settled conditions could be said to exist was before the Japanese started to make war in China. Since then the land has been troubled with constant strife and misery, and the end of international war has seen only the quickening of a civil and political war.

The war period in Hongkong and the rule of Japan had the effect of reducing the population. The end of the war, aided by the unsettled state of China, reversed the direction of migration. By the end of 1948 the population was larger than in 1941 and, as far as can be judged without exact statistics, relatively stable; but it was still far larger than is desirable both for the worker's standard of living and the economy of the Colony generally.

It might have been expected that the disastrous collapse of the Chinese currency in November 1948, coupled with the aggravation of the civil war and ever-increasing inflation, would have impelled even more people to leave Kwangtung and Kwangsi in search of the stable conditions and currency and the employment to be found in Hongkong. This has not

happened and the population does not appear to have increased markedly during 1948. There has indeed been an influx of richer refugees from Shanghai and Nanking, and in some cases industry, principally spinning, has migrated here accompanied by its equipment and workers.

Improvement of the standard of living in China is hampered by the fecundity of the Chinese. In Hongkong the problem is magnified by an additional factor, that is to say the free ingress and egress of Chinese nationals. Control of this free movement between China and Hongkong seems neither practicable nor politically, and in some ways economically, desirable.

In contrast with the unrestricted immigration into Hongkong, emigration of Chinese labourers through the Colony to other places is controlled by the Asiatic Emigration Ordinance 1915, which provides that no emigrant ship leaving the Colony should carry emigrants except those who are not under a contract of service. All emigrants have to be medically inspected. The ship may not go to sea without a certificate from the Emigration Officer.

With the ample labour supply available there is no question of forced or conscript labour, and ordinarily no necessity to go outside the Colony to recruit, except for certain specialised positions. Many Europeans are recruited for technical positions on contracts which include provision for repatriation on termination. Chinese may also be engaged, usually from Shanghai, as specialised craftsmen. Their terms of service are often rather indefinite, but employers almost always repatriate such workers to their place of origin. Women also are engaged from Shanghai, mostly for work in the textile industry; such women are often employed as instructors and are repatriated when they have taught their trades to Cantonese. The introduction of Shanghai workers has not been a conspicuous success, and the Labour Department has tried to induce employers to use local workers wherever possible.

New Territories Emigrants

The reopening of the phosphate workings of Nauru and Ocean Island after the war has renewed the demand for Chinese labourers for mining purposes. Enquiries by villagers in the New Territories early in 1948 as to the possibility of employment in this direction suggested that there might be a method of introducing money into those districts, which had been impoverished by the war and in which there was a population surplus. Formerly the practice had been to recruit labour from China proper only, but it was learned that the villagers of the New Territories resented a monopoly which excluded them from comparatively lucrative employment. It was accordingly agreed in 1948 to permit recruitment on a carefully controlled scale, and under the guidance of the District Commissioner New Territories.

Although the Asiatic Emigration Ordinance prohibits the signing of contracts before leaving the Colony, this

Hongkong Trade Unions and Labour Conditions

Trade Unions & Union Councils

The Trade Unions Ordinance requiring all unions to register came into force on the 1st April, 1948, the Commissioner of Labour being appointed Registrar under the ordinance. Many meetings were held with all the known trade unions to explain the provisions of the ordinance and the reasons for its introduction. Criticisms sprang partly from inability to understand the reasons for the introduction of the ordinance at all and partly from an opposition to certain sections which differ from the United Kingdom model and which were inserted to suit local conditions. By 31st March 1949, 178 unions were registered, 141 being labour unions and the remaining 37 employers' associations.

Two trade union councils have been formed in the Colony, the Hongkong and Kowloon Trades Union Council and the Hongkong Federation of Trade Unions, neither of which is as yet registered. No official figures are given for membership, but it is understood that the former council has approximately 100 labour unions affiliated, while the latter has about 30 affiliated unions. Constituent unions of the latter council come mainly from the public utility undertakings. The fees for affiliation to the councils are:—The Trades Union Council—\$5 for every union representative up to eight representatives altogether, one representative for every 100 members; The Federation of Trade Unions—5 cents per capita basis. The aims and objects of both councils are stated to be the betterment of relations between the various

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difficulty was overcome by drawing up contracts, approved by the Commissioner of Labour and which incorporated the requirements of the Contracts of Employment (Indigenous Workers) Convention, 1939. These contracts were carefully explained to those who offered themselves for employment, but were not signed in the Colony. In May, 1948, 413 men left for Nauru, prepared to sign contracts for two years on the termination of their voyage. In September 1948, a further 83 men left for Nauru and 714 for Ocean Island, the prospective contracts in this case being for 12 months, renewable for a further 12 if the worker so desired. The population of the New Territories is probably about 200,000, so that the temporary exodus of 1,200 persons is unlikely to have any deleterious sociological consequences. Arrangements have been made to facilitate regular payment of remittances to relatives in the New Territories and about \$19,000 has so far been paid. The labourers themselves are also known to have forwarded remittances direct and not through agents, but the amount of these remittances is unknown.

trade unions, improvement of working conditions, and raising the technical level of the workers. The Trades Union Council settles disputes between unions and aims at rendering advice and suggestions to the Government on all matters affecting labour. The Federation of Trade Unions recognises the independence of constituent unions and lays down that there shall be no interference financially or otherwise by the Federation in the affairs of its affiliated bodies.

Both councils have been active on behalf of their members and while they are more or less in opposition to each other neither side is openly or publicly critical of the other. In fact the dividing line is not always in evidence, as a number of the unions from both sides cooperate with each other on matters affecting them collectively. There were, however, complaints from one or two unions who alleged that they were considered members of the councils when in fact they had not indicated their acceptance of membership. The Labour Department has advised the unions that they are free to join either council, or, if the members wish it, both councils, but that they are equally free to be completely independent of either.

Very few of the unions have sunk their identity and amalgamated, and there are now in existence a number of small unions competing for membership within the same trade. The unions of Restaurant, Eating-House and Tea-House workers have formed a loose federation although retaining their identity. In the Printing trade, although the unions have neither amalgamated nor federated they remain on fairly good terms. In some of the other industries considerable hostility is shown between some of the unions. One would imagine that the hostility would mainly occur between those unions of the same trade which are affiliated to opposing councils, but this is not so. The hostility exists in those industries where the change over from craft or trade guilds to more modern forms of trade unions and employers' associations has been a slow or delayed one. Therefore, while many of the old guilds have completely divided into trade unions or employers' associations, there are still mixed unions in operation.

The distinction between craft and industrial unionism is often not very clear. Probably all the craft unions, except the Chinese Engineers' Institute, take into membership a small section of unskilled workers, and there are a number of small industrial unions in the same trade which have not yet been able to merge their identities. These problems are reproduced amongst Government workers, where there are at least 12 unions inextricably mixed and duplicated. The position is a wasteful one and does not tend to build satisfactory trade unionism. This situation therefore produces problems and difficulties which are by no means impossible of solution but which will take a considerable amount of education and

experience to solve, not so much by advice from the Labour Department as by the unions themselves.

Few local unions have obtained written agreements by negotiation with employers and there is little fixed machinery for negotiation in operation. Most of the unions can meet the employers when difficulties arise, but while this form of negotiation is helpful it often fails to achieve betterment of industrial relations. The question of the necessity of setting up machinery for negotiation has been widely discussed with both employers and workers and most parties are agreed in principle. The first Joint Consultative Committee of management representatives and the representatives of four unions was set up in the Naval Dockyard, and is functioning well.

Generally the unions are improving their efficiency, but there is still the tendency to make the threat and to take strike action before exploring every means of effecting a settlement. Many of the unions are beginning to realise the necessity of formulating long term policies. All the unions pay death benefit, but more and more are realising that further welfare measures on behalf of their members are very necessary.

The figures of trade union membership are those supplied by the unions themselves, and should be treated as approximate only. Membership of workers' unions registered as at March 1949 is 97,911, and of employers' unions 5,072.

Employment Exchanges

There is no official employment exchange in the Colony but there are two fee-charging employment agencies on a small scale, concerned mainly with clerical and domestic workers. There is a deep-rooted and almost universal opposition to the idea of employment exchanges, not only among workers but amongst employers themselves. Chinese industrial workers are usually engaged through works foremen, generally on a family basis. The objection of employers to the setting-up of employment agencies is not so much to the agencies themselves, but is based on the fact that men, engaged otherwise than through accepted channels, seldom remain long in employment because their fellow-workers make life very uncomfortable for them. Employers therefore cannot count on continued service.

It is an aim of official policy to start an employment service on a limited and experimental footing. The labour market is admittedly over stocked. There is no difficulty in obtaining a supply of adequate clerical workers and semi-skilled and unskilled labour, but qualified craftsmen and technicians are in short supply.

Maritime Labour

The commercial prosperity of Hongkong lies primarily in its entrepot trade, which in turn depends on shipping and good port facilities. An important element in the community is

therefore concerned directly or indirectly with the sea. Until recently the Labour Department has only been indirectly concerned with the conditions of employment of seafarers. This year, however, it has been necessary to devote attention to the application in the Colony of certain international labour conventions and recommendations which were adopted at the Seattle (Maritime) Conference, 1946 and which the United Kingdom Government proposed to implement.

There are signs that the maritime industry in Hongkong is moving in the direction of closer organisation between employers and employees. While no doubt capable of improvement present conditions are not prejudicial to the interests of seamen and they compare favourably with those offered locally to industrial workers and with those under which in practice both industrial workers and seafarers are at present employed in China proper.

Social Security

There is no system of social security organised on a general scale in the Colony and it is unlikely that any practicable compulsory system of unemployment, sickness, old age, or survivor's insurance could be devised having regard to the present sociological and economic structure of the Colony. Freedom of movement in and out of the Colony has always been possible to persons of Chinese race, and the degree of stability in the working population necessary for the introduction of compulsory insurance schemes is therefore absent. Chinese nationals are estimated to form some 95% of the working population, and of these very few would claim to be true residents. Even were there introduced some residential qualification, such as a definite period spent in the Colony, the difficulties involved in the deduction of compulsory contributions would make any insurance scheme impracticable, quite apart from the unpopularity that would attach to such a discriminatory qualification. Workers who become incapacitated through sickness or old age or who lose their employment return in more settled times to their native villages in China, where social convention demands that their families care for them. Owing to the unsettled conditions now prevailing, return to the country in these circumstances is not as common as it used to be.

Nevertheless the Government, the armed forces employing civilian labour, and some of the larger European firms have old age pension schemes, usually of a contributory nature. Little is done by Chinese-owned concerns. Persons for whom such schemes are in operation constitute probably something under 5% of the total working population.

Industrial Disputes

Although there were 13 strikes this year as compared with 10 last year, the number of man-days lost was very much less; 79,145 as compared with 278,618 for the period April 1947–March 1948.

Although there was only one major strike during the year — the taxi strike, which affected 600 drivers but caused little inconvenience to the public — there has been a slight but noticeable deterioration in good relations between employers and workers. In view of the general unrest throughout the Far East, and particularly in view of the civil war in China itself, it is surprising that relations on the whole remain so good. The industries affected by disputes are remarkably limited in number, and the causes of dispute were in most cases comparatively trivial and only rarely concerned wages. Only one dispute affected clerical workers, and only one workers in Government employ.

The greatest degree of unrest characterised the spinning industry, which is largely in the hands of employers from Shanghai who make use of skilled and semi-skilled labour brought from that city. In many ways these employers fully realise the desirability of good working conditions, reasonable hours and general attention to the welfare of workers, but these enlightened views were frequently, among their managerial staff, combined with a fierce distrust of all forms of workers' unions. Conditions for industrialists and their workers in Shanghai, both of whom were until recently under strict government control, differ materially from Hongkong where all parties are free to negotiate agreements. Although there was comparative quiet in 1948, the approach of the Chinese New Year brought about an access of trouble among a number of spinning mills, spurred on, it seems, by workers newly engaged from Shanghai. These demands were such that in most cases they could not even be considered, while the most important one, a demand for a New Year's Bonus of two months or not less than 40 days' pay, asked far more than the usual practice in Hongkong, i.e. a fortnight or a month's wages. Fortunately these disputes were settled without strikes except in one case. Further difficulties arose between Cantonese workers and Shanghai managements owing to differences of language and incompatibility of temperament. It would probably be advisable if other employers followed the lead of the first spinning factory to be established, which used Shanghai workers only as a nucleus for training Cantonese.

The intervention of the (Communist controlled) Hongkong Federation of Trade Unions in an advisory capacity in many disputes has not been entirely happy, and almost all those disputes which subsequently became strikes resulted in no gains to the workers or in loss of employment. It is difficult to resist the implication that the workmen were ill advised by persons who do not understand the fundamental rights employers enjoy in relation to their workers, and, still less, the converse. This federation has achieved considerable standing among its member unions and it is in the hands of energetic and vigorous persons, who lose no opportunity to extend its influence. It is unfortunate that its intervention in disputes often has the

effect of magnifying points at issue which are frequently trivial and which could readily be straightened out with a little mutual good-will.

354 cases of disputes (an increase of 78 over the preceding year) between individuals and employers were dealt with during the year, many necessitating quite protracted interviews. More often than not these disputes centred round the dismissal of monthly-paid employees. It is common practice for employers, particularly in Chinese concerns, to pay all their employees down to the most junior on a monthly basis. Yet there is widespread ignorance of the provisions of the Employers and Servants Ordinance, 1902 which makes it necessary for a month's notice to be given on either side or for an employer terminating his worker's service without notice to pay a month's wages in lieu of notice. Some of these disputes are quite complicated and take considerable time to settle. It often happens that the worker is employed by a subcontractor who may be a mere link in a chain of other sub-contractors. The principal contractor is, of course, responsible for seeing that the worker is paid but if an intermediate contractor has absconded with the money entrusted to him, which happens frequently, the additional complication makes the case almost insoluble. There is now evident an increasing awareness among workers of their rights under the Employers and Servants Ordinance, and in most of these cases an attempt is made to persuade the employer to pay wages in lieu of notice. In a number of cases it has been found that the employee was not telling the truth and the case has been dismissed.

A relic of Chinese tradition is to be found in the practice some Chinese employers have of dismissing any of their staff whom they do not wish to keep, without any notice or wages in lieu, on the second day after the Chinese New Year. It has been explained to the employers that Chinese tradition cannot supplant the law of the Colony and that when in Hongkong they must obey the law. These cases are fortunately becoming fewer.

The year under review was singularly free from serious disputes in the most important industry — dockyards — in the Colony, and this is all the more surprising as the managements were compelled to reduce staff and thus provide potential material for disputes. With the reoccupation of the Colony late in 1945, there was an enormous amount of ship repairing work to be done. Dockyard managements knew however that repair work would come to an end and had been making strenuous efforts to obtain general ship building supplies, particularly steel plate, for the fabrication of hulls. Unfortunately, the quantities required were not forthcoming and as a result of the reduction of ship repairing work as such, there was no option but to reduce staff. In one dockyard over a third of the staff had to be laid off, while in another the reduction was approximately 20%. Nearly all the men concerned are skilled artisans, and considerable hardship has been caused

Exchange & Financial Market

IMPROVED POSITION OF STERLING AREA AFTER DEVALUATION

The drain on the gold and dollar reserves of the United Kingdom that developed during the second quarter of this year signalized a setback not only to the British recovery effort but also to the entire European Recovery Program in which the United Kingdom plays so prominent a role. As an im-

mediate consequence, the United Kingdom reluctantly decided to slash by 25 per cent its imports of goods payable in dollars. Even as a short-run emergency measure, this severe restriction of imports from the dollar area represented a damaging blow to the British economy. But a more alarming aspect of the dollar drain and the emergency import cuts was that these adverse developments should have appeared at a time when British industrial production had risen to 133 per cent of prewar levels, total export volume had attained a level 50 per cent higher than in 1933, and total imports had already been drastically cut to 85 per cent of their prewar volume. Perhaps even more ominous, the drain on the British reserves during the second quarter coincided with the receipt of ECA dollar assistance at an annual rate of 1,360 million dollars, close to the highest rate recorded in any quarter since inauguration of the European Recovery Program.

There were a number of disputes in the Textile Industry, in which there is a constant state of unrest. Employment in the cotton weaving and knitting industry is particularly susceptible to fluctuation in the numbers of orders placed and wages are very low. The industry is ill organised and conditions of service vary widely. Disputes and strikes in the spinning industry, which is largely in the hands of Shanghai employers, were more common.

Outlook for Labour-Management Relations

The march of events in China is bound to have a very considerable effect upon labour in Hongkong, though in what way that effect will be felt is quite uncertain. Labour, in so far as its representatives are organised and articulate and not associated with the Kuomintang, believes that after the liberation of China conditions for labour in that country will be more attractive than here. Even were that the eventual outcome, it is difficult to believe that such conditions will arrive for many years. Indeed better conditions for labour in China would be very welcome, not least because it might help to relieve the Colony of its surplus population and permit the standard of living of the remainder to rise.

The average workman has yet to learn that a strike is a two-edged weapon. There has been nothing to show that this lesson is sinking in, though it could hardly have been more forcibly brought home than in the taxi dispute. There is no indication that the numbers of strikes will decrease; in fact, with the disturbed political conditions on the Chinese mainland, the tendency will almost certainly be the other way. Nevertheless the Labour Department has pursued its policy of attempting to incorporate in all agreements between managements and workers clauses establishing conciliation machinery within the industries concerned. Attempts have been made to inculcate in the leaders of trade unions the basic principle on which they should work and to bring home to them the need for a sense of responsibility both to their members and the public which is sadly lacking at present. Employers have also been encouraged to realise their responsibilities to their work people. It is perhaps too early for much in the way of results of this policy to emerge, but with good-will on both sides there will be steady improvement in mutual relations.

among this limited section of workers in the Colony.

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Beyond the immediate crisis loomed the danger that, in the absence of fundamental correctives, the 25 per cent cut in dollar imports by the United Kingdom would be succeeded only by a series of even more drastic limitations upon dollar imports as the flow of Marshall aid dollars gradually tapered off. If it were thus impelled by lack of dollar exchange to progressively curtail its dollar imports, the United Kingdom would have had no alternative but to resort to the slow and costly process of seeking sources of import supply within the sterling area, and in other areas with which discriminatory trading arrangements could be negotiated. Thus the prospect would have been that of a steadily deepening cleavage of international commerce into dollar and sterling trading blocs, involving a progressive closure of both British and other foreign markets to United States exports and undoubtedly some deterioration of the standard of life in the United Kingdom and other nations of the sterling area.

The economic crisis that overtook the United Kingdom in the second quarter of the year, therefore, transcended the comparatively narrow limits of an internal British problem, and aroused anxiety throughout the world. With the deterioration of the British reserve position, the central issue which came to the forefront of international economic affairs was whether British trade equilibrium was to be achieved by means of an expansion of dollar earnings in a multilaterally trading world or by a curtailment of dollar expenditures and a resultant degeneration of international commerce into a stifling network of bilateral agreements.

It was of course not to be thought that both the short and the long-term problems of dollar balance in the United Kingdom's trade accounts could have been adequately solved, even with the utmost British effort and the best of international cooperation, during the few short months that have elapsed since the onset of the British crisis.

Nevertheless, the discussions of the British economic problem undertaken by the Commonwealth finance ministers, the Council of the Organization for European Economic Cooperation, and more recently the United States, British, and Canadian delegates to the Washington conference have achieved encouraging progress. Quite aside from the concrete accomplishments of the several conferences, it is significant that there has been general agreement upon the basic objective of a progressive advance towards unrestricted multilateral trade. Thus, the British devaluation decision taken prior to the Washington meeting (but announced subsequently), reflects the determination of the British Government to seek a solution to its trading problems in the competitive arena of multilateral trade instead of permanently sheltering an overvalued pound behind the protective barriers of bilateralism. For their part, the United States and Canada have undertaken to reexamine existing barriers to the entry of sterling area products with a view to the reduction of these barriers wherever possible. Simultaneously, however, there has been a general recognition of the imperative necessity of temporary deviations from the multilateral objective, such as the 25 per cent cut in dollar imports by the Commonwealth countries, in order to cope with the present emergency.

A useful starting point from which to appraise the dollar problem of the sterling area is the geographical pattern of the gold and dollar deficit of the area—a deficit that was running at an annual rate of roughly 1,900 million dollars during the first six months of 1949. Contrary to the common impression, this deficit was not incurred primarily on British account with the United States but rather was broadly distributed among a number of countries, both in the dollar area and elsewhere, that demanded settlement in gold and dollars, not only for deficits incurred by the United Kingdom but also for those of the overseas sterling area. The gold and dollar deficit of the United Kingdom and overseas sterling area during the first six months of 1949 was roughly distributed as shown in the accompanying table:

	(In millions of dollars)		Annual rate based on first six months	first six months
	On United Kingdom account with dol- lar area	On overseas sterling area account with dollar area		
On United Kingdom account with dol- lar area	640		1,280	
On overseas sterling area account with dollar area		148		296
On entire sterling area account with nondollar countries		168		336
Total	956			1,912

Of the total deficit of the United Kingdom with the Western Hemisphere, the payments gap with the United States was initially expected to approximate an annual rate of 400-500

million dollars during the first six months of 1949. In view of the decline in British exports to the United States in the second quarter of this year, however, the annual rate of deficit may actually have approached 600-700 million dollars, or about 30-35 per cent of the total gold and dollar deficit of the sterling area during the first half of 1949. The residual deficit of the United Kingdom with Canada and other Western Hemisphere countries seems to have been at roughly the same annual rate as that incurred on United States trading account. The Western Hemisphere deficit of the overseas sterling area, for which the United Kingdom assumes responsibility, approached an annual rate of 300 million dollars during the first half of 1949, accounting for nearly 16 per cent of the total deficit of the entire sterling area. An even more severe drain upon British gold and dollar assets appeared in the form of a deficit of 336 million dollars (annual rate) incurred by the sterling area as a whole with Belgium, the German Bizon, Switzerland, Iran, and other countries that demand conversion into gold and dollars of their sterling acquisitions above certain agreed levels.

A basic problem is that of further expanding the dollar earnings of the non-British sterling area, which amounted in 1948 to 1,096 million dollars as against the 289 million dollars earned by British exports to the United States. There is danger that price concessions on the primary commodities normally exported by the sterling area will not result in appreciable increases in the dollar value of the area's exports, owing to the relative insensitivity of demand to price cuts. Some encouragement to the recovery and growth of sterling area exports has been afforded, however, by the United States' agreement at the Washington conference to permit freer competition of natural with synthetic rubber in the American market and to review the U.S. program of stockpiling rubber and tin. Somewhat more specific stockpiling commitments were agreed to by Canada.

In general, the United Kingdom has materially improved its chances of checking for the time being the dollar drain arising from the deficit of the overseas sterling area with the Western Hemisphere and the deficit of the sterling area as a whole with Belgium, Iran, and certain other nondollar countries. But the hard core of the British dollar problem is the deficit of the United Kingdom with the United States, Canada, and other Western Hemisphere countries, which was running during the six months of 1949 at an estimated annual rate of nearly 1,300 million dollars.

Over the short run, the Western Hemisphere deficit of the United Kingdom should be substantially reduced by the 25 per cent import cuts announced in July by Sir Stafford Cripps. This action, coupled with the ECA 1949-50 allocation, should go far toward checking the loss of gold and dollar reserves in settlement of the British deficit with the Western Hemis-

sphere. The dollar savings resulting from the scheduled cuts may amount to as much as 400 million dollars, while the OEEC has recently recommended an ECA allocation to the United Kingdom of 962 million during 1949-50.

The United Kingdom now has a favourable opportunity for stemming the dollar drain upon its gold and dollar reserves. In the longer run, however, much will depend upon the success of British efforts to resist increases in production costs and to raise industrial productivity, in order to consolidate the competitive advantage gained for British exporters through the recent devaluation. As Sir Stafford Cripps has so vigorously asserted, increases of money wage rates to British labour at this juncture would threaten to vitiate all of the progress that has been so laboriously achieved during recent months.

HONGKONG CLEARING HOUSE

Hongkong Bankers' Clearing-house for the months of September and October recorded \$961.8 million and \$864.9 m. respectively. The September figure was the second highest in Hongkong's financial history (after May when heavy transfers taking place in that month as a result of flight from HK\$ and arbitrage in sterling/US\$ crossrates obscured the actual financial position of the Colony).

In October there was, against Sept., a reduction of 10.06% but compared with Oct. 1948 and Oct. 1947 (showing resp. \$600.3 m. and \$611.5 m.) there were increases this year of 44.09% and 41.44% respectively. The lower clearing figure in October reflects a reduction in such financial transactions which have nothing whatsoever to do with the commerce or any other productive economic activity of the Colony; overseas financiers and Chinese flight capital have been utilising the local exchange markets for various operations in connection with the movement of funds and speculation in local and foreign exchange and gold markets. Trade returns and communication statistics bear out the general impression of a continued boom; there has been a slackening of building activity but real estate transactions were, on the whole, not much lower than during most of the months of this year. The stock market has been very quiet but this state of affairs has been observed for a long time now (it is

only since about 3 weeks that new interest and increased turnover is noticed).

The clearing figure for the first ten months of this year exceeds the corresponding totals of 1947 (\$5,475,905,997) and 1948 (\$6,785,821,391) by 66.47% and 34.33% respectively. These spectacular increases in 1949 reflect the expanding commercial, financial and, to some extent, industrial activity of the local business community.

The monthly averages for 1947 and 1948 were \$549,587,014 and \$688,971,795 respectively while the average per month this year is \$911,570,549.

Clearing-house figures for the first ten months of 1948 and 1949:

Amounts passed through the clearing:-

January	690,869,863	822,578,268
February	624,267,531	755,368,765
March	780,180,420	891,308,578
April	753,367,765	829,170,394
May	677,060,291	1,207,078,664
June	667,992,698	940,445,697
July	656,716,094	904,542,989
August	667,791,274	938,427,589
September	667,270,511	961,792,552
October	600,305,004	864,991,992
Jan/Oct.	6,785,821,391	9,115,705,488

HONGKONG CURRENCY NOTE ISSUE

The total amount of Hongkong currency in circulation by the end of September was \$805,625,497, a reduction of \$30 million (3.7%) against the August figure. There has been a constant reduction in currency circulation since April when the peak of \$881 m. was reached which was due to the return to the Colony of HK\$ from Kwangtung where no longer was any need for so extensive circulation of this currency and where dishoarding of HK\$ was slowly proceeding (however, part of the funds "frozen" in the form of HK notes were sent to the Colony where they were put into bank accounts).

This process is continuing apace. After the compulsory conversion of foreign exchange and currency notes held in Kwangtung (by Chinese and foreigners alike), expected to take place within a few weeks from today, a further reduction in the circulation of HK\$ will be the result as the People's Bank yuan will assume the posi-

HONGKONG OPEN MARKET RATES per US\$100

November	Notes		Drafts		T.T.	
	High	Low	High	Low	High	Low
7	6.04	6.01½	6.07½	6.06	6.09	6.09
8	6.06	6.03½	6.09	6.07½	6.10½	6.09½
9	6.05¼	6.91½	6.08½	6.06	6.10	6.08½
10	6.04¼	6.00	6.07¼	6.05½	6.09¼	6.08
11	6.05¼	6.02	6.08½	6.07	6.10	6.09
12	6.08	6.04½	6.10½	6.08½	6.12½	6.10

tion of sole legal tender in South China. For the time being, and in order to disturb as little as possible the financial stability in Kwangtung, the People's authorities in Canton have permitted the circulation of HK\$ in South China where, prior to conversion and prohibition of the holding of foreign currency, all payments are gradually to be made in the new legal tender of China.

In future, HK\$ should only be the currency of this Colony but a portion of notes issued by the local three private commercial banks (possessing the privilege of note issue for the time being) may remain hoarded in China (as a hedge against rise in the cost of living in China) similar to but far less in extent than the US\$; relatively insignificant amounts of Hongkong currency will also be found in nearby Far Eastern ports especially in Macao where the HK\$ is the currency for all commercial transactions.

The Sept. total of \$805.6 m. is still 19.32% higher than the 1947 year-end amount (\$675.1 m.) and 2.86% higher than the 1948 year-end amount (\$783.2 m.). The actual requirements of the local population as regards currency may be estimated at around \$600 to 650 m. taking into account the oriental habit of carrying and holding at home unusually (for Western conceptions) large amounts and of making payment in form of bank notes rather than by cheque.

In addition to the bank note circulation of \$805.6 million as at the end of September there were some \$30 m. Hongkong Government notes (\$1 and subsidiary notes of 10 and 5 cents as well as 10 cents coins) supposed to be in circulation (so far Government here has not made any statement, since the end of world war II, as regards the total of notes, subsidiary notes and coins in circulation).

The Hongkong & Shanghai Banking Corp. note issue accounts for almost all the currency issued here, followed by the Chartered and the Mercantile Bank; the Sept. figures for the 3 banks are as follows (in million of HK\$): 752.3; 48.9; 4.2.

Bank notes in circulation in 1947, 1948 and 1949:

31st December, 1947	....	675,162,086
June,	1948	.... 733,732,427
July,	"	.... 752,663,109
August,	"	.... 756,479,275
September,	"	.... 788,793,244
October,	"	.... 775,994,843
November,	"	.... 757,787,233
December,	"	.... 783,206,709
January,	1949	.... 822,083,763
February,	"	.... 841,783,331
March,	"	.... 863,221,423
April,	"	.... 880,952,687
May,	"	.... 877,532,196
June.	"	.... 875,111,090
July,	"	.... 857,128,361
August,	"	.... 836,585,601
September,	"	.... 805,625,497

US\$ Market

Highest & lowest quotations on the open market of last week, in HK\$ per US\$100:—notes 608—600, drafts 610½—605½, TT 612½—608 (or US\$16.32 to 16.45 per HK\$100).

The par value of HK\$ is US\$17½ per HK\$100 (or HK\$571.429 per US\$100) on the basis of US\$2.80 per £ (or £.359143 per US\$). Against the par value last week's open market TT New York rates were higher by 6.4% to 7.19%.

The local crossrate last week was US\$2,612, low, 2,631, high. Against the par value the crossrates of last week were 6 to 6.7% lower.

In foreign free and black exchange markets sterling (area account, transferable among private dealers and merchants) was quoted from US\$2.55 to 2.65 (New York quoted area account sterling on the curb market between 2.58 to 2.63). As there are very small if any differences between local and foreign exchange markets the arbitrage is forced to lie low and bide its time. There is however no basis for expecting a deterioration in the unofficial sterling/US\$ cross; all indications point to an improvement in the position of sterling and growing reluctance by holders of sterling to dispose of their funds, if convertible into US\$, at a discount of more than 3 to 5%.

The firmness of HK\$ in the local market has been noticed since the devaluation of sterling went into effect and barring any adverse developments abroad the local US\$ quotation should move around HK\$6 or drop under this level as a result of heavy accumulation of US funds (in every form) in the Colony and tightness of HK\$ funds by a large number of merchants and financiers.

Sales last week in the native exchange market: US\$1½ million (TT 500,000, drafts and notes 750,000).

Inward remittances, from overseas Chinese, were on a small scale. KMT and so-called bureaucratic Chinese officials were almost absent as buyers of TT New York. Gold importers have not been heard of. There was however some merchant demand.

Gold Markets

Highest & lowest gold prices per hongping tael of .945 fine \$305—289, equaling per .99 fine tael \$319.52—302.76 (actual business done \$319½—303 for export contracts). The .99 fine oz equivalents were \$265.53—\$251.60 or 25 to 32% above the official par value (Hongkong parity for 1 oz troy fine is \$200 or £12½; one Hongkong dollar equals officially 0.155517 grams of fine gold).

Last week's crossrates per fine oz were US\$43-1/3, high, and 41-1/3, low. Overseas bullion dealers were quoting gold for export at about 41 to 42; in New York business was done at about 18 to 20% above the US Treasury price of 35.

Local market developments were characterised by further liquidations of the overbought speculation and a tendency on the part of Shanghai flight capitalists to convert part of their bullion holdings into local and US cur-

rency. Price fluctuations were within narrow margins (about 5% difference for the week's highest & lowest rates). The only guidance for speculators were the quotations reported from Canton but there was hardly any business transacted in that city.

Interest in the forward market dropped, aggregating for 5 trading days 42 cents. At the current average price per tael annual interest works out at the rate of 9%. This rate is further expected to decline and thus forward buying, for the purpose of earning the daily change over interest, loses its attraction in a financial market where first mortgages easily bring from 12 to 18% p.a. and where current yields of industrial shares are ranging from 8 to 12%. Although native banks and gold brokers are anxious to maintain their business and try to influence the dwindling clientele with whatever plausible arguments at their disposal, the facts of the current local and overseas gold situation cannot be ignored; the trade in gold with China is finished and there is no stimulant for price movements in the international bullion market.

Hongkong is, as it were, submerged in a sea of gold and there is always a weekly surplus when imports and exports have been counted. Local prices, although more or less in line with principal foreign bullion markets, are expected to decline to around US\$40/41 per fine oz and no early recovery can be foreseen. The world-wide rumour conspiracy which wants people to make believe that the official price of US\$35 per fine oz will be revised soon has met with categoric denials by responsible officials in Washington and there is no reason, at present, to distrust these denials (which, of course, does not mean that statements made by officials in Washington are any more reliable than those previously made by the British Treasury, particularly in connection with sterling devaluation).

Trading Reports of Last Week.—Monday, Nov. 7:—Holiday. Unofficial market was quoted at \$304—300, with little business transacted. Tuesday, Nov. 8:—Opening and closing rates \$29½—302½. On the fictitious forward market the change over favoured sellers at the interest rate of 7 cents per tael of .945 fine per day. Throughout the week, the change over rates remained in favour of sellers. Highest of the week \$305 touched on reported higher prices in Canton, but dropped on sales pressure. Wednesday, Nov. 9:—Opening and closing 302½—295½. Change over 9 cents. Market eased off on no support. Thursday, Nov. 10:—Opening and closing 294½—292½. Change over 12 cents. With little business transacted, market turned despondent and bears had a field day. Friday, Nov. 11:—Opening and closing 291—298. Change over 9 cents. Low official gold price fixed by the People's Bank in Canton caused here a price drop to 289, lowest of the week recorded, but reacted on profit-taking purchases. Saturday, Nov. 12:—Opening and closing 297½—298½. Change over 5 cents. Market was quiet and nothing was transacted in the unofficial afternoon market.

Official and unofficial tradings totalled about 180,000 taels, a daily average of 36,000 taels. Positions left open estimated at an average of about 185,000 taels per day, in which interest hedging forward operators and Canton operators oversold while gold importers were about even as few arrivals are expected and Shanghai, Swatow and local operators were overbought.

Cash bars turned over officially 18,350 taels, unofficially about 14,500 taels, totalling 32,850 taels.

A total of about 11,000 taels were imported, of which 2,000 taels from Taiwan, 1,000 taels from North China and 8,000 taels from Macao. Exports totalled about 6,000 taels of .99 fine bars these were sent to Bangkok and Singapore. Local ornamental consumption was estimated to be about 2,500 taels.

Total stock in the Colony ready for delivery is estimated at 342,500 taels.

Gold Subsidies:—The Canadian Government has announced that the Emergency Gold Mining Assistance Act, scheduled to remain in effect until the end of 1950, will not be canceled as a result of the recent devaluation of the Canadian dollar. This decision was taken because it was judged that some mines had based their operations on the understanding that the Act would be in effect for three years. Cancellation of the Act would not fall equally on all mines, since payments are directly related to costs of production. The present assistance payments will be continued until the end of 1949, but the Government will introduce legislation to reduce payments per ounce in 1950 by the amount of the price resulting from devaluation. Currently, the rate of assistance per ounce is one half of the excess of a mine's costs of production over Canadian \$18 an ounce, not exceeding \$16. This is paid on the number of ounces by which the mine's production exceeds two thirds of that in the 12 months ended June 30, 1947. In 1950, any mine formerly eligible for payments of \$3.50 an ounce or less will receive nothing. Other mines will have their payments per ounce reduced by \$3.50. It is estimated that this modification will reduce total payments by \$4.5 million. Payments in 1948 were \$9 million, and in 1949 they will probably be \$10 million. Canadian gold mines coming under the Act will receive about \$3 million more for their product in 1949 as a result of the adjustment in the exchange rate and about \$12 million more in 1950.

The Southern Rhodesian Minister of Finance, in announcing devaluation of the Rhodesian pound in line with sterling, stated that the Government intends to discontinue the gold subsidy as soon as producers receive the new price for gold.

Manila Gold Market:—Prices have declined to US\$40.00 an ounce. Last January, when the price was \$47, demand was strong, and by the end of the month, the price had advanced to \$50. By the middle of June, speculators were paying up to \$55. The reason for the recent decline in demand is the difficulty of disposing of gold in China under existing political conditions and also on account of satura-

tion of the Chinese market where liquidations of especially merchants' holdings are causing very low rates (below US\$40).

In September 1948, when new currency was issued in China, the price of gold in Manila fell from \$48 to \$45 an ounce. For 1948 as a whole, the two principal Philippine gold producers realized an average price of about \$44.50, and for the first eight months of 1949 these mines and others obtained an average of \$48 or more.

Philippine gold production currently is valued at about US\$900,000 a month at the statutory price of \$35 per ounce. Before the war, the output was valued at nearly \$3.3 million a month.

The Philippines have no law that prohibits free trading of gold at any price within their own territory, but the Government refuses to grant licences for gold exports to countries where it could be sold for more than \$35 per ounce. Though customs agents no doubt endeavour to prevent illegal export of gold, smuggling continues to take place. For some time in 1947 and the earlier part of 1948, Manila served as one of the principal gold entrepôts for China (bullion from America was first airfreighted to Manila and then, by flying boats, carried to Macao for eventual "distribution" in China).

Unofficial Exchange Rates

Last week's open market rates for bank notes, in HK\$—Piastre, forward market, nominal at 11.90, Nica guilders 23½—24, Baht 27 (per 100 currency units). Bank of England note 14½—15.10, Australian pound 12.10—12.27, Canadian dollar 5.30—5.32, Indian rupee 1.12½—1.13½, Burmese rupee .78—.79, Ceylonese rupee 1, Malayan dollar 1.83—1.83½, Philippine peso 2.95—3.

Business continues to be small, some counters being neglected entirely.

Some speculation in British pound notes is carried on, operators paying attention to prices quoted overseas for such notes and, if differences are apparent, take steps to make profits by either importing or exporting such notes (although officially this practice is prohibited). Due to the large arrival of travellers from the UK and the increasing number of military personnel from Britain the supply of pound notes is far exceeding any requirements by local dealers; only by exporting the surplus to New York (principal customer of pound notes which are sold there to the Britain visiting travelling public can the local price be maintained, however, this price cannot be expected to be higher than the New York open market quotation but has to be at least 5% below the US rate as otherwise no exports from here would be attractive. It is a normal development in currency markets that notes are discounted against TT rates. UK bound travellers will only buy pound notes here (which cannot legally be imported into the UK if in excess of £5 per person) if they can be obtained considerably cheaper than drafts on London. A price of \$14½ per pound note would appear to be sufficiently attractive to interest such buyers as a draft on Lon-

don would cost 1/3d. (HK\$ 16 per £) or about 10½% more. In New York where the official TT rate on London remains unchanged at US\$2.80 pound notes were traded during the last 2-3 weeks at below 2.50, the lowest price recently having been 2.42.

Silver Markets

During the week under review, the highest and lowest prices of bar silver were \$4.75—4.70 per hongping tael, Hongkong and other dollar coins 3.00—2.92 per coin, Chinese dollar coins 3.05—3.00 per coin, and twenty-cents coins 2.50—2.30 per five coins.

Tradings were small, estimated to be about HK\$755,000 in value.

Chinese Exchange Markets

Gold and US\$ remittances with Shanghai:—Highest and lowest rates: for gold 830—770 and US\$ notes: 895—805 in Hongkong, for 1000 in Shanghai, total business: 3,400 taels of gold and US\$65,000. Recoveries were due to the gains of both gold and US\$ notes in the black market of Shanghai.

Gold remittances with Tientsin:—Small business was transacted at 880 in Hongkong for 1000 in Tientsin.

Gold remittances with Taiwan:—Strict search and control was imposed in Taiwan. Nevertheless, gold remittances to the Colony by merchants to set off their trade balance were done. Highest and lowest rates for the week were 1000—910 in Hongkong for 1000 in Taiwan. Total business: 7,300 taels of gold.

Hongkong dollar remittances with Canton:—The highest and lowest rates were 1000—994 in Hongkong for 1000 in Canton. Total business: HK\$650,000. Better communications brought the rates to normal again, but as trade was not yet hopeful, future remittance business is not expected to increase.

Hongkong dollar remittances with Swatow:—As shipping of general goods to Swatow was large and carrying of Hongkong dollar notes to the Colony was risky, rates of remittances were quoted at 900 in Hongkong for 1000 in Swatow. Small business was transacted.

People's Bank Notes:—Official rates for Hongkong dollar notes in Tientsin 580; in Shanghai 550; in Canton and Swatow 500; for US\$ notes in Tientsin 4,800; in Shanghai 4,800; in Canton and Swatow 3,000.

Curb market business in Canton is small. People's Bank notes are not generally accepted by merchants, the HK\$ is still preferred as the common means of payment. There is as yet no official ban on the HK\$ or other foreign currency notes.

Curb market rates moved between PB\$600 to 850 (i.e. 100 to 350 above the official exchange rate). Similar rates were also quoted in Hongkong by money changers and native banks. The official rate is considered unrealistic and when there is to be a compulsory conversion in South China success of it can only be expected if the people are offered around PB\$750 per HK\$. This rate depends however on the cost of living in Canton and in the province; in case of higher all-round prices the

Hongkong Stock & Share Market

After being in the doldrums for the better part of the year the share market is at last definitely showing signs of coming to life again if the recent movement is any criterion. There are many factors in favour of increasing activity with a corresponding rise in prices. Present share prices are also attracting outside funds seeking new fields for investment.

The political situation for some time past had been overshadowing the market causing at times an atmosphere of tension and pessimism among holders of local securities abroad. Local investors were not unduly alarmed at the turn of events — they were content to bide their time. This liquidation by overseas holders continued with the worsening political situation in China and this development coming in a weak market caused a very big fall in prices. The anxiety about China was not the only reason for the slump, there were other contributory causes also, mainly speculation in gold bars and exchange, and capital transfer in anticipation of the devaluation of sterling. Furthermore, large losses by gold bar speculators lead to share liquidations which also brought shares down in the market. It would appear that this liquidation is over.

Prices started to sag in the early part of the year and with occasional speculative rises which were short lived reached its lowest levels quite recently. Recovery was often predicted but failed to eventuate. Even today's prices in many cases are 40/50% below highest postwar rates and offer therefore great scope for capital appreciation. We believe all our Public Companies will show increased profits, due in some cases to the considerable capital expenditure, made during the last year or two by several companies,

curb market value of HK\$ is bound to rise and conversion could then only be effected at a commensurably increased rate.

Silver Certificates:—The only place in KMT China where these certificates can be redeemed into coins is Chungking but as this city is now coming into the forefront of the last act of the civil war most holders of the silver scrip are ready to dispose of them at a fraction of their actual value (i.e. one silver dollar coin, costing in Hongkong around \$3 which also is the buying price of the People's Bank in Canton). Few sales of this scrip were reported in Hongkong and rates were around \$0.60 to 0.70. The silver certificates cannot be brought to Taiwan (where a different currency is in use). Within a week or two there may have completely ceased transactions in the certificates. In Chungking the discount levied on the certificates, in spite of quick redemption at the Central Bank of China, has recently risen to 20% which fact shows the lack of confidence by the people in even the shortest range future of the KMT.

which is now bearing fruit. We are of the opinion that where substantial sums have been spent in this way reserves should be capitalised and present-day shareholders reap the benefit instead of posterity.

* * *

Industrial progress in the Colony has been satisfactory and ever more new plants are being established which fact proves of great encouragement to investors generally. Confidence displayed thus by capitalists in the security and stability of Hongkong must favourably reflect elsewhere on the economy of this great trading place. The continual expansion of industrial enterprises here is also well illustrated by the growing increase in the consumption of electric power especially in Kowloon where new industries are springing up since 1948 in surprising variety.

The monthly trade figures are another source of satisfaction to the community reflecting as they do the unprecedented prosperity of commercial and financial circles. One is justified in expecting ever higher import and export totals particularly as a result of the gradual reopening of trade with all of China and the terminating phase of the civil war in that vast country. The oft-predicted boom in Hongkong's trade with China has set in some time ago and is now getting into full swing.

The question of recognition of the new China government seems to have been favourably decided by the British Commonwealth governments although the timing of such an announcement may present some difficulty, provided that Peking will give the required assurances — mainly concerned with recognition by the new government of obligations previously incurred by Chinese governments — there should not be any delay in granting international recognition to the Chinese People's government. In case of lack of cooperation on the part of the Peking authorities and an ambiguous attitude vis-a-vis the treaty obligations of China as entered into by legally constituted authorities ruling China previous to the successful revolution waged by the Chinese Communist Party, de jure recognition of Peking should still be only a matter of short time as it is obvious to all foreign and Chinese observers that nothing could be gained by withholding this recognition while much harm, for all parties concerned, may be the eventual outcome of estrangement of Anglo-Chinese relations. It is of course everywhere admitted that relations with the new authorities now ruling China may prove anything but easy, and there are unfortunately signs indicating much truculence by certain members of the Peking government, but the sound political sense of the CCP leadership may be trusted to understand the advantages to be secured from cooperation with the West.

We are justified in basing business policy on the expectation of an early British recognition of the Peking government. It may appear too sanguine a view to look forward to a rapid advance in Hongkong-China commercial and other relations but progress has been made in the face of considerable difficulties and of 'delicate' questions cropping up at every turn. The consensus of local merchant opinion is that there is a new and great opportunity for China to recuperate from the misery to which years of war and civil disturbances have reduced the country and the people. Hongkong as a good neighbour will help in good measure to speed up China's economic recovery and by doing so will add to its own prosperity.

In this light it would seem that the local securities market is all set for a slow but steady rise in quotations. There will be temporary setbacks as the 'in and out' professional speculators will take their profits what with new capital now being induced into a more active market should at times lead to some excitement and further attraction of speculators to the long-neglected share market. Among old holders and Icehouse Street generally there is these days an air of optimism and reassurance in the future of local share business which had been significantly absent for over half a year. It is realised that the current low price levels are no longer warranted and that the excessively high yields of almost all stocks will soon be a thing of the past. Last week's business was usually done at 5 to 6% higher prices compared with the previous week: in some cases appreciation was about 10%.

* * *

Sales in the local market: Recorded sales in the share market during the first 9 months of 1949 amounted to a value of \$68,187,907. Sales reports for the first three quarters of 1949: 1st quarter: \$22,596,951; 2nd quarter: \$30,195,892; 3rd quarter: \$15,395,064. Monthly average for the current year was \$7,576,434 and the weekly average of sales in the share market was \$1,748,407.

* * *

China Lights have declared a final dividend of \$1.00 making \$1.40 for the year less tax on the fully paid shares with a pro rata amount on the partly paid shares. It is worth noting that last year the Company called on shareholders for more capital for expansion. The dividend has been maintained on the increased capital.

The Land Company's new Building "Edinburgh House" will be ready for occupation sometime in February. The increased rentals from this building is sufficient to pay at least a dollar a share more on the present capital. In addition the new rent ordinance which permits a further increase of 55% on prewar rents on business premises will assure an increase in the Company's profits.

(Continued on page 642).

Hongkong Public Companies Dividend Payments and Highest & Lowest Quotations

Stock	Authorised Capital (No. of Shares)	Issued Capital (No. of Shares)	Value	Paid up	Last Dividend	When Paid or Payable	Highest & Lowest Rates Jan. Sept. 1949. High Low
H.K. Government 4% Loan do do do	3½% Loan (1933); Issued \$4,838,000 3½% " (1940) Balance \$6,160,000 3½% " (1940) do. \$8,018,000 3½% " (1948) Issued \$50,000,000				\$103 \$100 \$100	\$100½ \$100 \$100	\$100 \$100 \$100
Banks							
H'kong & S'hai Banking Corp.	160,000	all	\$125	all	Final 1948 £3 @ 1/2-27/32 Free Int. 1949 £2 @ 1/2-13/16 Free	Mar. 5, 1949 \$1870 Apr. 20, 1949 \$375 May 20, 1949 \$750	\$1390 \$1490 \$1410
Bank of East Asia, Ltd.	500,000	100,000	\$100	all	\$6 Divd. & \$2 Bonus for 1948 less tax	Aug. 15, 1949 Feb. 14, 1949 \$150	\$114 \$106 \$105
Insurance							
Canton Insurance Office, Ltd.	200,000	50,000	\$50	all	\$14 for 1948 Free of Tax	Apr. 20, 1949 \$375	\$310 \$305
Union Insce. Socy. of Canton, Ltd.	200,000	135,000	£10	all	30/- for 1948	May 20, 1949 \$750	\$625 \$690
China Underwriters, Ltd.	500,000	256,000	\$10	\$7			\$645
Hong Kong Fire Insce Co., Ltd.	200,000	15	\$1000	all	\$11 Free of Tax for 1948	Mar. 18, 1949 \$270	\$55 \$220
Shipping							
Douglas Steamship Co., Ltd.	20,000	all	\$50	all	\$5 Free of Tax for 1948	May 25, 1949 \$200	\$200 —
Hongkong, Canton and Macao Steamboat Co., Ltd.	80,000	all	\$15	all	\$1 for 1938	Apr. 28, 1939 \$1.	\$11 \$11
Indo-China Steam (Preferred) Navigation Co., Ltd. (Deferred)	120,000	49,589	£5	all	\$6 1948 Pref. shares, less tax 10% divd. & 10% Bonus on May 23, 1949 \$89½	May 23, 1949 \$89½	\$89½ \$200
Union Waterboat Co., Ltd.	120,000	49,589	£5	all	Def. shares, less tax	Apr. 26, 1949 \$32½	—
Eastern Asia Navigation Co., Ltd.	71,430	/	\$7	all	\$1 & \$1 Bonus Free of Tax for 1948	Apr. 26, 1949 \$32½	\$22 \$27
Docks, Wharves & Godowns							
Hongkong & Kowloon Wharf & Godown Co., Ltd.	1,000,000	180,000	\$50	All	\$12 less tax for 1948	Apr. 11, 1949 (N) \$142 Nov. 15, 1948 \$134	\$100 \$108 \$100
North Point Wharves, Ltd.	2,500,000	704,500	\$10	All	Int. Divd. Gold Yuan \$0.50 for 1948 Final Divd. \$2. for 1948	Nov. 15, 1948 May 20, 1949 \$18	\$4.80 —
Shanghai & Hongkew Wharf Co., Ltd.	640,900	490,000	\$50	All			\$14 \$10
Hongkong & Whampoa Dock Co., Ltd.	1,000,000	All	\$10	All	\$2.25 less tax for 1948	May 19, 1949 \$29½ May 19, 1949 \$29½	\$15½ \$15
China Provident Loan & Mortgage Co., Ltd.	2,000,900	542,213	\$5	All	Divd. 75 cts.) Free of Tax 1948 Apr. 23, 1949 \$19¾ Bonus 65 cts.) Divd. 70 cts for 1948	Mar. 11, 1949 \$12½ Mar. 31, 1949 \$12½	\$10½ \$11¾
Shanghai Dockyard, Ltd.	2,000,000	1,125,000	\$7	All	Divd. \$3 Free of Tax, year 31.3.49 Nov. 30, 1949 \$32	\$9.20 \$25½	
Whealock Marden & Co., Ltd.	1,000,000	478,495	\$20	All			\$30 \$25
Mining							
Raub Australian Gold Mining Co., Ltd.	800,000	All	5/-	All			\$3.85 \$5.65
Hongkong Mines, Ltd.	25,000,000	15,137,600	10 c.	All			\$0.015 —
Lands, Hotels & Buildings							
Hongkong and Shanghai Hotels, Ltd.	1,500,000	1,193,867	\$7½	All	Divd. \$1 for 1948	Free Mar. 23, 1949 \$16	\$9.90 \$11½ \$9.10
Hongkong Land Investment and Agency Co., Ltd.	2,000,000	400,000	\$25	All	Bonus 50 cts for 1948	of Tax Mar. 28, 1949 \$68½	\$44 \$52½ \$48½

Shanghai Land Investment Co., Ltd.	2,386,800	All	\$5	All	\$1	\$1.70	\$2.60	\$2.30
Humphreys Estate & Finance Co., Ltd.	1,000,000	\$10	All	All	Divid. \$1 for 1948 Free of Tax Mar. 3, 1949 \$15.10	\$10.00	\$9	\$9
Hongkong Realty & Trust Co., Ltd.	2,000,000	All	\$1	All	Divid. 10 cts. Free of Tax for year ended 30-4-49 \$9 for 1948 Free of Tax Int. \$5 making \$9 for 1948	\$1.80	\$2.10	\$2.10
Chinese Estates, Ltd.	30,000	16,500	\$100	All	Int. \$4 a/c 1949, Free of Tax May 2, 1949	—	\$140	\$140
Public Utilities					Int. \$1 less Tax for 1948 Mar. 22, 1949 \$21 1/2	\$10	\$16.90	\$14 3/4
Hongkong Tramways, Ltd.	4,000,000	1,950,000	\$5	All	Final \$1 less Tax for 1949 Sept. 6, 1949	—		
Peak Tramways, Ltd. ....(O)	25,000 (	All	\$10	All	Int. 60 cts. less Tax for 1949 Free of Tax for May 4, 1949	\$18	—	
(N) 50,000 (	100,000	80,000	\$10	\$5	\$1 for (old) \$1 for (new) year 31.3.49.	—		
Star Ferry Co., Ltd. ....(N)	100,000	3,000,000)	\$5	All	\$8 Free of Tax for 1948 Feb. 28, 1949 \$142	\$90	\$85	\$85
China Light & Power Co., Ltd. ....(XD)	5,000,000 (N)	2,000,000)	\$5	All	Int. 40 cts. year 30-9-42 less Tax June 8, 1949 (O) \$15.80 \$10.10	\$13	\$10 1/2	\$10 1/2
Pro. Rata 30-9-49 .....do.....				All	Int. 40 cts. year 30-9-49 Dec. 3, 1949	\$7.05	\$9.80	\$7.70
Final \$1.70 less Tax for 1948 Mar. 17, 1949	—				Final \$1.70 less Tax for 1948 Sept. 7, 1949 \$41	\$28	\$32 3/4	\$28 3/4
Int. \$0.80 Free of Tax for 1949 Sept. 7, 1949	—				Int. \$0.80 Free of Tax for 1948 Jun. 16, 1949 \$28 3/4	\$20	\$18	\$17 1/2
All Divd. 12% for 1947 .....May 27, 1949 \$35 1/2	All	\$15	All	All	All Divd. 12% for 1947 .....May 27, 1949 \$35 1/2	\$2	\$11 1/2	\$11 1/2
Industrials					—	\$4	—	—
Green Island Cement Co., Ltd.	500,000	290,042	\$10	All	\$2.00 Int. 1948, Free of Tax \$3.00 Cap. Bonus 0.90 (New) for 1948	\$19	\$21 1/2	\$19
Hongkong Rope Manufacturing Co., Ltd.	200,000	All	\$10	All	\$2.00 Final Divd. \$2.00 (O) Final Divd. \$2.00 de Cap. Bonus 1948 Free of Tax Mar. 5, 1949	\$11 1/2	\$13	\$12 1/2
Stores, Etc.					Int. Divd. \$1.20 (Old) Free of Tax Sept. 15, 1949 (O) \$45	\$29	\$43 1/2	\$37
Dairy Farm, Ice & Cold Storage Co., Ltd.	1,000,000	486,564	\$7 1/2	All	Int. Divd. \$2.80 (New) for 1948	\$29	—	
A. S. Watson & Co., Ltd.	600,000	300,000	\$10	All	Final Divd. \$2.10 (O) —do— May 20, 1949	\$39	\$46	\$39 3/4
Lane, Crawford, Ltd.	250,006	149,448	\$10	All	(O) Divd. \$4 Bonus (\$3) less Tax Feb. 26, 1949 (O) \$63 1/2	\$39	—	
Sincere Co., Ltd.	1,000,000	All	\$10	All	(N) do \$2 do \$1.50 for 1948	\$39	—	
China Emporium, Ltd. ....(O) 499,988 (ord.) 12(Fdrs)	200,544 (ord.) 800,000	800,000	\$10	All	Int. Divd. \$1 Free of Tax Year Dec. 15, 1948	—		
Sun Co., Ltd.	1,000,000	All	\$75	All	Bonus (\$1) 28.2.49 on 75.00 (O) (O) Final Divd. \$2 Bonus (\$1) Free of Tax Aug. 26, 1949 \$25	\$17	\$17	\$17
Kwong Sang Hong, Ltd.	24,000	All	\$100	All	(N) do 40 cts. Free of Tax, 1948 .....do..... Oct. 15, 1949 \$25	\$4 1/2	\$8	\$8
Wing On Co., Ltd.	80,000	All	\$100	All	Divd. \$10 cts. Bonus 100 cts. tax May 14, 1949 \$11 1/4	\$8	—	
China Entertainment and Land 499,980 (ord.) 20(Fdrs)	199,697 (ord.) 19(Fdrs)	\$10	All	Divd. 50 cts. less tax 1947 .....Dec. 21, 1948 \$31.10	\$2.40	—		
Investment Co., Ltd.	2,500,000	500,000)	\$2	All	All Divd. 50 cts. less tax 1948 .....Feb. 28, 1949 \$142	\$105	\$98	\$98
H.K. Engineering & Construction Co., Ltd. ....(O) (N)	52,992	\$2	All	Int. divd. \$6 .....do..... 1949 Sept. 1, 1949	—			
Shanghai Loan & Investment Co., Ltd.	700,000	1,032,770	\$5	All	All Divd. \$6 for 1948 Free of Tax Jun. 30, 1949 \$106	\$72	—	
Yangtze Finance Co., Ltd.	2,000,000	1,723,500	\$5	All	Divid. \$1 Bonus (\$2) (Ordinary shares less Tax) 1948 Apr. 14, 1949 C. Rts. \$32 1/2	\$39	—	
Ewo Cotton Mills, Ltd. ....(XD)	2,040,000	1,723,500	\$5	All	Bonus \$1980 (Fdrs.) 1948 X Rts. \$18 (N) \$4 1/2	\$14	—	
Cotton Mills				All	40 cts (old) 1 1/4 cts (new) for Apr. 5, 1932 (O) \$5	\$2.30	—	
Ewo Cotton Mills, Ltd. ....(XD)				\$1	1931 .....do.....	\$4 1/2	—	
				All	All Divd. 20 cts. for 1948 .....July 14, 1949 \$2 1/2	\$2	\$2.40	\$2.40
				All	All Divd. 6 % free of Tax for 1949 Oct. 4, 1949 \$4.40	\$3 1/2	\$2.40	\$2.40

COMMERCIAL MARKETS

HONGKONG-NORTH CHINA COMMUNICATIONS

As the KMT 'blockade' of North China ports has, several months ago, been frustrated by the occupation of Chinese People's Liberation forces of all the islands lying within Chinese territorial waters (from where previously weak and uncoordinated efforts were made by the KMT navy to hold up or intimidate foreign shipping) regular and scheduled coastal (with Hongkong) and ocean (with world ports, especially Japan and US) communications are carried on.

(Continued from page 639).

In the early part of the year it was mooted that the Hotel Company might make a new issue of shares (on a basis of one new share to every four old) at par i.e. \$7.50. Whether this proposal has been shelved or not nobody seems to know, however, there has been a lot of buying of these shares which are now changing hands at \$12/\$12½. A dividend of \$1.50 can be expected.

Last week's business

A large turnover in almost all active shares marked last week's business; buyers were in a good mood and inquiries were coming in fast. The trend was firm and further price rises are, in some of the popular counters, anticipated. Some profit-taking was observed in those shares which had risen during the last 3-4 weeks above the market average.

Business transacted last week totalled 121,908 shares of a value of \$2,671,553 (against \$1 m. in the previous week). Such strong buying as shown in the above figure has not been witnessed here for a long time and is far in excess of the weekly average for the current year.

Highest & lowest quotations and sales (no. of shares):—

Stock	High	Low	Sales
H.K. Banks	1490	1490	142
Union Ins.	680	680	129
Wharves	111	111	230
North Point Wharves	5½	5½	2000
Docks	19½	18¾	2226
Providents	12½	12	421
Hotels	12.2	11.8	12,200
Lands	51½	51	2099
Humphreys	113½	11.3	1950
Trams	17.4	16.6	17,700
Peak Trams	9	9	800
Electrics	33	32	7691
Macao Electrics	21½	21½	600
Lights, old	13½	12.7	18,126
" new	10.4	9.8	16,661
Telephones	19½	19.2	3000
Cements	24¾	22¾	8600
Ropes	16½	16	250
Dairy Farms	41½	42¾	2500
Watsons	48½	45½	6400
Entertainments	14½	14	450
Raub Mines	5.7	5.7	2000
Ewo Cottons	7.1	7	1100
S'hai Lands	2.4	2.4	2000
S'hai Docks	8.7	8.7	743
Wheeldocks	33	32½	300
Asia Navigation .....	.8	.8	1000

Hongkong's shipping services have been of paramount importance for the maintenance of trade and passenger travel of North China. Recently these services have been augmented and competition on the Hongkong-Tientsin run is developing. The two leading British shipping firms in this part of the world, Indo-China Steam Navigation Co. (Jardine, Matheson & Co.) and China Navigation Co. (Butterfield & Swire), have mainly been responsible for the uninterrupted coastal service connecting this Colony with North China ports: these two principal shipping companies have had considerable difficulties in the beginning to resume the North China runs but when the new Chinese regime had established itself firmly in the ports, particularly Tientsin (Taku Bar) and Tsingtao (besides Chefoo, Chinwang-tao), and the KMT 'blockade' was disposed of, there was a big boom in trade between Hongkong and North China which is best illustrated by the statistics of Hongkong's Commerce & Industry Dept. All available outward cargo space was regularly booked, usually well in advance of actual sailings, and inward cargo (Chinese exports) was also, except for a few shipments, loaded in North China to capacity of holds. It is true that freight charges were high but it must not be forgotten that services were resumed under emergency conditions, that much time had to be wasted in loading and unloading of cargo in North China ports (especially wearisome in barter deals when commodity exchanges were slowly proceeding) and the voyage was unduly prolonged by other delays.

What passenger space was available has also been fully booked on every inward and outward trip. Freighters are limited to 12 passengers only in accordance with local and international regulations governing the safe operation of shipping, and although, but for one or two cabins, there was only deck space available Chinese travellers and merchants (often the shippers or their fokis accompanying cargo) always besieged shipping offices here and in Tientsin for passages. Coastal ships with regular passenger accommodation are operated only by Butterfield & Swire and this company is continually overbooked for both inward and outward journeys. There are a few other shipping companies who also serve on the North China run but they are usually tramps with irregular sailing times (flying the Panamanian, Norwegian, Portuguese and some other flags while actual owners are nationals of other countries and ships are often chartered by a Chinese firm or individual); time & again an American ship is calling on North China ports and there are now preparations made by several shipping companies to have more regular runs to North China. By & large, however, the two British shipping

companies continue to carry the bulk of cargo and accommodate the majority of passengers, and in their effort to maintain and expand the communications along the coast of China they have the protection of the British Navy whose men-of-war have been patrolling close outside China's territorial waters so as to ensure safe passage. Without this support and the presence of the Royal Navy British shipping could not have achieved the almost normal operation of ocean and coastal communications with North China.

The Chinese here and in North China have every reason to be thankful for this splendid and efficient service which has kept China's imports and exports flowing and has enabled a large number of people to come to the Colony (for business reasons or to take up here residence, temporary though it may be) or to travel to North China (to return to their homeland, take up new jobs in the Peking government, engage in trade, pursue their studies). Latest fees for passenger travel from Hongkong to Tientsin are (in HK\$): first class or saloon 600, second class 500, steerage 300, deck space 200; in Tientsin a saloon ticket costs PB\$250,000. The approximate travel time is 7 days to Tientsin and 6 days from the north to Hongkong. As a result of the heavy demand for tickets an active black market in passages has developed with usually 25 to 30% premium demanded by 'brokers' (believed to be connected with shipping companies' compradores). Similar conditions prevail as regards commercial cargo but in North China, owing to less pressure on space in recent weeks with exportable commodities there decreasing in quantity, cargo can be shipped without much difficulty while passages still are traded at a premium (mostly steerage and deck space).

HONGKONG-SHANGHAI TRADE

A few KMT obedient naval units are still prowling outside the Yangtze and are trying to prevent the full resumption of trade between Shanghai and the world. The crews of these naval vessels are doing their nation a great disservice which has been realised by a few commanders who have placed their ships under the authority of the People's government. Trade is carried on, in the face of threats emanating from the KMT refugee regime in Tai-peh, and more ships, sailing under British, American and other flags, are now making regular calls on Shanghai. The risks involved are getting smaller as the KMT regime disintegrates from day to day and the loyalty or otherwise of the KMT forces tends to make all sanctions and intimidations empty words.

It seems that the only dependable KMT warrior is its airforce and the damage done by the Chinese Air Force (CAF) in recent raids on Shanghai has been considerable and thus constitutes in itself a powerful deterrent to trading with Shanghai. Godowns, factories, ships have been bombed and workers

have been strafed when they refused to heed KMT warnings; many innocent persons have been hit, fatalities are mounting and private property is increasingly subject to destruction if such is located near a 'target'. If it was not for the danger of being exposed to air attacks many more merchantmen would have commenced runs to Shanghai. Not until the CAF will stop its bombings can there be expected resumption of more normal business with Shanghai.

A large volume of trade is meanwhile moving from Shanghai to Tientsin (overland on railway cars and motor trucks) and to small nearby ports which are usable only for junks and low tonnage steamers, and preparations for transportation in and out of Shanghai via Canton (using the Yangtze up to Hankow and then the railway, canals and highways down to Canton) have well advanced.

The 'blockade' of Shanghai does not work at all but it makes imports and exports more expensive; there is no delay in the carrying on of trade after the initial shipments have been made as a continuous flow is assured. Indeed, the authorities concerned with the control and promotion of foreign trade in Shanghai and Tientsin seem to be little worried about the sabotage of shipping communications to and from Shanghai but they are anxious that export goods are produced and delivered so that the growingly passive trade balance can be adjusted. With the switching over of loyalty from Taipeh to Peking by the Chinese airlines (CNAC and CATC) hopes have become very reassuring that the CAF may see its way to abstain from inflicting damage to Shanghai seeing the senselessness of continued 'air guerillas' in a civil war which has been completely won by the Chinese Communists and feeling, as sure as all foreigners do, the strong hostility of the Chinese people against these CAF raids.

Among the most assertive foreign shipping firms engaged in trade with Shanghai is an American line (Isbrandtsen) who openly advertise their sailing schedules in contrast to other shipping companies who proceed discreetly although they have ships regularly on the Shanghai run (the newspapers do not report such ships' departures but freight agents are privately canvassing bookings and otherwise interested merchants keep themselves well informed of arrival and departure dates). Like on the North China run, charges are very high which is caused by risks and delays, insurance, premiums, higher payments for the crew and the understandable desire by shipping companies to earn better returns in the current emergency period. Profits made by merchants in the Shanghai trade are unusually large and their margins still do not show a falling tendency in spite of more frequent sailings.

RECOGNITION?

The hesitation displayed by the British Government over coming to a decision with regard to the recognition of the Communist regime in China is extremely disappointing, especially to commercial circles in Hongkong where delay creates further uncertainty as to future trade relations between the Colony and China. Delay also creates an attitude of mind detrimental to the best interests of both parties and allows for increasing criticism, propaganda and resentment—not to mention irritation caused by the delaying of trade movements.

On the other hand, however anxious we may be to arrive at as speedy an understanding as possible it is only fair to remember that the question is not one affecting Great Britain alone—the Commonwealth is also concerned as well as the USA and some politicians, such as Dr. Herbert Evatt, Australian Minister for External Affairs who is particularly cautious, are of the opinion that too hasty a recognition might create unforeseen problems which in their turn would need solving and that at least guarantees safeguarding British rights must precede any talk of recognition. This opinion by no means indicates that a definite refusal is being considered. On the contrary it rather points to the fact that while recognition is inevitable its ramifications are under consideration and that eventually the democracies will announce their readiness to discuss the subject with the Peking Government. Non-recognition is unthinkable; it would not bring about the failure of the new order in China, which will have to come from the people themselves, but would give ground for intensified propaganda and lead to restrictions against trade facilities and would lend fresh support to the Malayan rebels and would inevitably create serious trouble in Hongkong itself. While it is a well-known axiom that diplomats and politicians prefer to allow circumstances to take their course, this procedure is today out of date and at best unproductive and even dangerous. We realise the importance of considering the situation from all angles, but the point that speed is usually an essential element in present day world affairs should not be forgotten. China has chosen a course of action which may not be in accord with the ideas of the Western powers, but it is up to the democracies to accord the new regime the same freedom of action as is the birthright of those democracies themselves and to fit in with the new trading partner in so far as our democratic principles allow.

RICE IMPORTS

The announcement by the Thai government that next year would see their withdrawal from the scheme under which allocations of rice are made by the International Emergency Food Committee of U.N. Food & Agriculture Organisation was welcomed by Hongkong rice dealers, who have chafed under the controls imposed under the scheme by the Hongkong Dept. of Supplies & Distribution. Not only has attention many times been drawn to the poor quality of the rice but also to its high

price as compared with that ruling on the open market. It seems that such cause for discontent is inevitable under any system of government controls, although admittedly there are times when it is found possible to dispense with them.

Hongkong's rice imports from Burma and Thailand formed 25% of the value of the Colony's total imports for the first half of this year which amounted to \$164 million, rice imports totalling 818,000 piculs to the value of \$41 million; of these imports 75% or 616,000 piculs valued at \$31 million came from Thailand and the remaining 202,000 piculs valued at \$10 million from Burma.

During 1948 Thailand exported 812,000 tons of rice, 42,000 tons more than was anticipated. Burma, however, owing to internal troubles fell by almost the same figure, 40,000 tons, short of the export quota for January/December; this shortage occurred during the latter part of the year, the bulk of the rice fortunately having been shipped before the disturbances in the country led to a reduction in the area under cultivation. The total area under cultivation in Burma before the war was 12 million acres, but after the war it fell to something over 8 million acres. In spite of the handicap imposed by the unsettled state of the country, however, Burma's exports of rice for the January/August period of this year totalled 957,600 tons as against 1,212,000 tons for the whole of 1948.

BRITISH CAR PRODUCTION RECORDS

Motor vehicles made in Britain during September reached a weekly average of 8,700 cars and 4,500 commercial vans. This is the highest output since the war. The shipments of cars overseas were the highest ever known and amounted to more than 24,500. Exports of commercial vehicles were 8,500 only just below the record set up last May. 5,000 farm tractors were also sent abroad in September compared with 3,000 in August. These new record export levels are not due to effects of alteration in exchange rate between the pound sterling and the dollar as the results of this will not be visible in Britain's trading figures for some weeks yet. September exports were valued at more than £6½ million for cars and over 3½ for commercial vehicles. They bring the total shipments for this year to well above £49½ million for cars and 30½ million for commercial vehicles. During this period last year corresponding figures were 44½ and 27½ million.

HONGKONG COMMODITY MARKETS.

Cotton Piece Goods & Cotton Yarn

The cotton piece goods market continued more or less stagnant during the week and few transactions took place although prices rose slightly; in grey sheetings Bellman fetched \$48.80 per piece, Elephant Head sold at \$45.50, Fancy Butterfly fetched \$53. Hung Fuk \$52.50, Jade & Dragon \$45. Mammoth Bird \$51.50, Peacock (New) sold at \$50.50, Pine & Crane at \$45.

Cotton yarn showed renewed activity with the news that 400 bales were being shipped to South Korea and a slight improvement in prices took place: in 20 counts Blue Phoenix rose to \$1400 per bale, Flying Tiger fetched \$1310 and Golden Star \$1300, Sunlight sold at \$1240; in 32 counts Blue Phoenix rose to \$1510 per piece, Silver Moon to \$1400.

Metals

Tientsin buyers have been actively in the market for galvanized iron sheets with an order for over 6,000 tons; about 2,200 tons have been despatched, mainly G30 3' x 7', and a further 130 tons will shortly be shipped. An order for 1,500 tons has also been booked for Shanghai. A cargo which is being returned from Singapore of Belgian make and of an unsuitable specification for that market, as well as one returned from Siam, will be useful for filling these orders. Galvd. mild steel sheets, thick, showed an increase in prices: 3' x 7' (British) G24 went up to \$1.15 per lb., G26 to \$1.20, G28 sold at \$1.25. 3' x 8' G26 fetched \$1.15 and G28 \$1.28. \$1.20 per lb. Shanghai buyers showed interest in zinc sheets and local torch manufacturers were also in the market: Polish G5 being short of stock was offered at \$140 per picul but sales were made at \$135, G7 & G8 being also short were offered at \$145 per picul, Japanese 3' x 7' being short went up to \$132 and G6 to \$128; for forward delivery from Poland c.i.f. Hongkong G8 was quoted at £115 per long ton, G7 at £117, G6 at £121 and G5 at £124. A shipment of corrugated roofing iron sheets was received. G24 3' x 7' was offered at 85 cents per lb. but buyers countered at 80 cents at which price sales were made, G26 sold at 90 cents and G28 at \$1 per lb. The restrictions on re-export of mild steel bars having been relaxed the market became active, round bars being mainly in demand for shipment to Shanghai under self-provided exchange: Tientsin buyers were also in the market but shortage of stock hampered the execution of large orders: Thailand usually requires about 1,500 tons of these bars monthly: round bars 4' 1/4" to 5" showed an increase in price to \$36 per picul and 3/4" & 1/2" improved to \$35 per picul, 5/8" & 3/4" rose to \$33, 7/8", 1" & 1 1/4" to \$33 and 2" to 3" to \$44; square bars 20/22 ft. fell on the whole, but cargo with re-export permit showed an improvement: 1/2", 1", 1 1/4" & 1 1/2" fetched \$42 per picul, 5/8" to 7/8" sold at \$38. The market in brass sheets was dull except for a demand from local torch case manufacturers; indent prices of the British product show an increase of about 10%: rolled sheets, British, 12" wide G8 to G10 stood at \$205 per picul G11 to G12 were at \$210: oblong sheets, British crown brand, 8 oz. to 10 oz. were offered at \$210 per picul, 11 oz. & 12 oz. rose to \$215. Japanese G8 to G12 being short of stock were offered at \$215; square sheets, British, plane body 4' x 4' 18/22 lbs. rose to \$205 and 24/40 lbs. was offered at \$200 per

picul. Both Tientsin and Shanghai buyers were in the market for copper wire, and with a shortage of stock in Japanese as well as European makes a rise in prices was anticipated: European G8 and G9 sold at \$210 per picul, G12 fetched \$205, G14 & G16 rose to \$200, G18 to G22 were offered at \$240 per picul. Tientsin interests were requiring galvd. wire, but heavy stocks prevented any rise in prices: G6 sold at \$57 per picul, G7 at \$58, G10 to G15 was offered at G52, G16 to G20 at \$63, G22 sold at \$68, G24 remained firm at \$87. Wire nails showed no improvement: French G18 1/2" were offered at \$69 per picul and 5/8" at \$68, while G17 3/4" stood at \$65; European 1" to 4" in kegs were offered at \$44 per picul, Polish 1/2" & 1 1/4" sold at \$43.50—a loss against the indent price, forward offers were at \$40 per picul, 1" & 1 1/4" bulk packing were offered at \$45, 1 1/2" & 1 3/4" at \$44, 2" at \$46, 2 1/2" to 6" (local make) stood at \$44. Interest was shown in the wire hoop market by North China and Shanghai factories and a large turnover took place offsetting the lack of demand by local nail factories and from Canton: G1 with re-export licence 3/16" to 3/4" rose from \$38 to \$41 per picul, G2 3/16" with permit was offered at \$31 per picul but little interest was shown. USA tinplate waste was required by Tientsin buyers who preferred wooden cases to the tonnage packing, a considerable quantity was sold at \$85 per picul ex-godown stood at \$82. Electrolytic tinplate was offered at \$77 per cask. Misprint tinplate was mainly required by buyers for Canton but demands were considerably reduced: white base 1st quality with increased stocks fetched \$48 per cask, white & black base together sold at \$36.

Dyestuffs

There was little movement in the dyestuffs market as buyers held off considering the prices quoted too high. However, some 6,000 piculs have found their way during October from the local market to North China. The latest price rates were: Indigo vat 80% grain (ICI) 1 catty packing selling offer \$1,050 per picul an improvement of \$50 over the beginning of the week. Thionil black AR Conc. (ICI) 60 kilo. drum at \$250; 60% grain (Nacco) & (I.C.I.) \$950; 50% paste, 5 catty packing also at \$950. Acid scarlet (USA) 4R rose to \$1,200 as against \$1,150 during the earlier part of the week. 2R to \$800 as against \$750; 3B to \$1,200 from \$1,150 and M 00 for \$1,000 from \$950. Eire Black 647 also showed an improvement from \$950 to \$1,000. Congo Red No. 210 improved from \$1,180 to \$1,200. USA Direct Blue 140 sold at \$1,350 per picul; Sulphur black R. conc. 693 (Nacco) sold at \$460 per picul.

Paper

Trade was brisk on the paper market between Canton and Hongkong but no increase in prices is expected in view of the near arrival of some shipments of paper from Europe and Poland, the Polish makes showing a drop of 10%. In Canton newsprint in reams

50 lbs. was offered at \$40, on the local market the price was \$25.50 per ream: newsprint in rolls sold locally at 49 cents per lb. for 43"; white mech. printing paper 80 lbs. improved to 64 cents per lb., manifold paper 22" x 34" 19 lbs. of Swedish make sold at \$13 per ream, glassine paper 20" x 30" 14 lbs. blue wrapper sold at \$13.50 per ream. M.G. Sulphite paper 47 lbs. white fetched \$23.50 per ream, bond paper 26 lbs. without watermark sold for \$18.50 and 32 lbs. for \$21 per ream.

Cement

The export trade of Hongkong cement is being affected by the fact that in the case of Indochina much of it is going direct to Malaya, where Taiwan is concerned exports are restricted by the government, and as regards Japan cement is being sent direct to North China. For the above reasons imports of cement have dropped, especially as local needs are almost entirely met by the Green Island Cement Co. Prices on the local market showed an improvement with reduced stocks, Indochina 1 cwt. Red Dragon brand sold at \$6.90 per bag, 94 lbs. packing stood at \$6 per bag; Taiwan 1 cwt. packing was offered at \$7; Japanese 100 lbs. sold at \$6.40, Green Island emeralcrete rapid hardening cement stood at the new official price of \$7.80 per 112 lbs. bag, emerald brand stood at \$6.80 per 112 lb. bag while the 94 lb. bags were at \$5.90.

Smoked Rubber Sheets

Some 2,000 tons of smoked rubber sheets were shipped to North China during the month of October. With demands on the local market combined with the increase in price of the Singapore commodity, No. 1 selling price improved during the first part of the week to \$124 per picul, No. 2 to \$120, No. 3 \$109 and No. \$104.

Vegetable Oils & China Produce

The first post-war contract with Japan for tungoil (woodoil) covers the export from Hongkong of 300 tons valued approximately at US\$150,000 for delivery in Japan in the middle of December. Exports of this oil during the month of October came to 3118.7 long tons in bulk destined for the U.S.A., an increase of 962.7 long tons compared with September, 2,385 long tons being despatched during the first half of the month; shipments to Europe and Australia amounted to 2090 drums. The greater part of these shipments of tungoil was despatched by the Nationalist Government's Oil Control Organisation in Hongkong, of the 3118 tons for the USA 1825 tons or 58.5% being sent by them. At present the question of securing supplies from China is occupying the attention of dealers; stocks held in Hongkong amount to 2,000 drums and the daily consumption of local factories and shipbuilding yards averages 50 drums, so that with the inclusion of demands from the USA and Europe it is essential to obtain regular and plentiful supplies. Before the defection of high officials in the C.N.A.C. and C.A.T.C. last week, taking with them planes and equipment belonging to these concerns,

tungoil was being flown to the Colony from Chungking and elsewhere, but with the temporary closure of these offices this main source of supply has been blocked, making it difficult for dealers to make future arrangements with any certainty of delivery. However, it is fortunately possible to utilise the Kowloon-Canton Railway where shipments from Canton are concerned, and as the communists organise means of transportation the situation should be eased. During the week prices showed a strong upward inclination, with sellers holding back; at the commencement tungoil was offered at \$190 with counteroffers at \$186, later however sales took place at \$190 and a sale was made to a local paint factory at \$198 per picul, with sellers anticipating a rise shortly to \$200. Teaseed oil 5% acid, with falling demands, fell from \$174 to \$171 per picul. Rapeseed oil also was inactive, the price falling to \$98/100 per picul. Aniseed oil, standard quality, rose to \$850 from \$800 per picul. Cassia oil 80% was offered at \$1,600 per picul. Canton buyers were interested in groundnut oil and a considerable turnover took place of the Tientsin 1st quality in drums at \$119 per picul and of the Bombay 1st quality in drums at \$136 per picul, the latter rising later to \$140.

Like other China products, supplies of cassia have been affected by the war situation, transportation being found difficult to effect. Stocks in Hongkong amount at present to around 900 piculs while stocks in Tunghing, Kwangtung, one of the great producing centres, stand at 1,000 piculs ready for despatch when transportation can be arranged. During the first part of November, shipments of cassia whole and bud to Gr. Britain totalled around 4,000 piculs. Under the circumstances prices have risen, cassia whole, Tunghing quality, being offered at \$92 per picul and at \$90 for forward delivery. Cassia lignea, 84 catty packing, was in demand, selling at \$74 per picul an increase of \$10, whereas exporters were not interested in the 60 catty packing which was offered at \$65 per picul.

Ramie 1st quality West River, Kwangtung, was active and the price due to falling stocks rose to \$215 per picul as against the earlier figure of \$207. A recent arrival of 10 tons of Chinese raw lacquer was placed on the market at \$700 per picul, a counteroffer was made at a little over \$600 but without finding acceptance. Gallnuts were in demand by exporters and sales took place at \$105 per picul for the Liu-chow, Kwangsi, product and at \$95, the South Korean product fetched \$88 per picul.

A small quantity of 80 water buffalo and cow hides was received from Canton by rail, the first since the occupation, dealers having met with some difficulty in obtaining this supply. As, however, the amount was not sufficient to arouse interest where Great Britain and France are concerned, the high cost at source of supply having caused the market to stagnate, only local transactions could take place the price quoted untanned being \$170 to \$200 per picul.

Ores

Tungsten ore (wolfram) with lowered stocks showed a rise in prices: China 65 deg, fetched \$240 as against the previous price of \$210 and South Korean standard quality sold at \$235 per picul.

The market in tin ingots was very active, dealers however being handicapped by uncertainty in regard to supplies. The high prices ruling made dealings profitable notwithstanding difficulties over procurement. The arrival of supplies by air before the closing of the C.N.A.C. and C.A.T.C. offices brought prices down somewhat and Yunnan 99% sold at \$630 per picul while Ho-Yuen, Kwangsi, 99.75% fetched \$640 per picul. Singapore (old stock) Marked Banker 99.75% sold at \$645 and later improved to \$660 per picul. China tin 60% fell in price to \$400 per picul. British XXXX 42% bushing tin was required by local factories and fetched \$8.50 per lb.

Beans

Dairen soya beans continued active and the price improved to \$55 per picul against the previous price of \$50. Kalgan green beans following the arrival of a fresh supply dropped to \$57 per picul. Beancakes were in demand for Taiwan buyers being sold at \$32.30 per picul ex-ship and at \$32.50 for spot, stocks being light.

Bristles

USA requirements for bristles from Hongkong amounted to 10,000 cases over the past two months, but the demand has now lessened, which is in some respects fortunate as stocks on hand in Hongkong amount to under 400 cases of Chungking black and only 3 sets of Tientsin No. 56 shorts, a month's normal export supply. The difficulty of obtaining supplies is great. Chungking black selling offer was at US\$2.85 a drop of 20 cents per lb., Tientsin 55 short was offered at US\$6.60 a drop of 25 cents per lb.

Wheat Flour

The Kowloon-Canton Railway is now being used for the transportation of flour to Canton, the local market consequently showed renewed activity: forward delivery sales from expected arrivals ranged from \$17.30 to \$17.80 and \$18 per 50 lb. bag.

Wood

The price of wood on the local market rose sharply during the week; in spite of the fact that no shortage is anticipated as supplies are arriving from Penang and Sandakan to take the place of the Kwangtung wood: Wuchow firewood sold at \$12 per picul, and it is doubtful whether any more will arrive from this source for the time being. Singapore firewood was offered at \$6.50 and charcoal at from \$16 to \$32 per picul; China fir, uncut, was offered at \$4 per cubic foot for 1st quality and at \$2.80 for inferior quality, 1st quality cut was at \$8 per cubic foot; hardwood from Sandakan and Singapore improved to \$7, teakwood 1st quality was offered at \$50, 2nd quality at \$30 and 3rd quality at \$12/\$14 per cubic foot.

Rice

The local market price for rice decreased during the week while Canton prices for 1st quality fell to HK\$40 per picul and 2nd quality to \$38. On the local market Chai Mei Peony (red line) 1st quality stood at \$92 and Un-long (new) 1st quality at \$75; See Mew Double Happy (red line), new, sold at \$67 and old at \$88, See Mew (Un-long) (new) 1st quality was at \$70 per picul.

Melon Seeds & Bitter Apricot Seeds

Stocks of melon seeds in Canton are heavy due in a large measure to the decision of the communist authorities to regard them as a luxury item. Heavy supplies sent to Hongkong from Canton resulted in a drop in prices, new crop quality fetching \$320 per picul while the Shun Fang, Kwangtung, quality fell to \$250 per picul, a loss being entailed at these prices.

Bitter apricot seeds interested local exporters about 30 tons being required. Non-arrival of an expected shipment from Tientsin and the difficulty of procuring supplies elsewhere caused a rise in price from \$80 per picul to \$88 and \$90 in respect to a large quantity.

Silk Waste

The season for silk waste is practically at an end, but dealers find themselves unable to complete the orders from abroad. The obtaining of supplies is not the only difficulty. Since Shanghai dropped out of the picture Chungking and Canton as well as South Korea have been the main supplying centres and shipments from the two former have until recently been arriving by air; unfortunately the quality of the silk waste has so deteriorated that it does not come up to the standard required for export, except in the case of Japan where manufacturers are able to utilise it. Hopes were consequently raised when a comparatively small consignment of silk waste of a high grade was recently received from South Korea and orders were promptly placed for a further 1000 piculs. Difficulties, however, seem to have arisen over the execution of this order, and as yet it is not clear whether the export of silk waste has been prohibited by the South Korean Government. Meanwhile falling stocks and the devaluation of the pound sterling have led to an increase in prices, Chungking No. 1 quality being quoted at \$370 per picul and the small lot from South Korea being offered at \$415 per picul, but so far buyers have proved reluctant to pay this high rate.

Salt

The Government of Taiwan has agreed to ship 500,000 tons of salt to Japan before the end of February next year, that is if shipping space is available. At the moment, however, heavy tonnage has been allocated for the shipping of sugar and until that is completed difficulties in regard to shipments to Japan may retard the export of salt. It is however, hoped that even if the whole of the amount bought by Japan cannot be delivered within the allotted time at least 50% will be.

HONGKONG INDUSTRIAL CHEMICALS MARKET

Price trend continues still upward and most buyers, especially from Shanghai and North China, appear anxious to place orders here. There is no doubt great scarcity in a large number of chemicals in China and replacement demand is backing up high prices. It is realised in Shanghai and Tientsin that the prices now to be paid are far above world market levels but high profits by local dealers and China coast transport and insurance charges cannot be avoided. On this score, prices in China are bound to rise and cost of goods produced by factories in China cannot be expected to level off.

Hongkong warehouses have been experiencing a continuous shifting of cargo, old consignments have been cleared and new shipments have arrived; on the whole, the stock position has eased but is still far above normal levels. There is great activity in the import business as more indentures are made out and dealers report that customers are anxious to obtain cargo often irrespective of price. Forward business has been very strong during several weeks past.

The majority of native dealers' expect continued heavy demand for most chemicals required by China's textile and other industries and they are confident that the present boom will last for several months. The tendency to hoard the more popular chemicals especially in Shanghai where the public is conscious of the deterioration of the People's currency's value has of late become very accentuated and as a result Shanghai requirements are increasing. Every Shanghai or North China bound freighter is carrying heavy loads of chemicals and space for such cargo is always in strong demand which has contributed to the high tonnage rates currently charged by scheduled and tramp shipping companies running up the China coast.

Business report of last week:

Naphthalene ball. The article recently dropped in Belgium. As it is not the season for consumption the market is rather quiet. Czech origin with diameter of 5/8" or 3/4" balls 50 kg is about \$61 per case. Sodium bichromate. The upward tendency is not so strong as before but buying interest is always on the market. English origin 448 lb. drums sold from 98 cts. to \$1.01 per lb., and South African origin 500 lb. drums from 87 cts. to 92 cts. The forward sale of the latter which will arrive early to mid December was 69 cts. per lb. for scores of tons. Sodium silicate. The stock has been scarce almost a month. A shipment is now arriving. ICI Crescent brand 750 lb. drums is about \$160 per drum. Cresylic acid. This material is used for making sanitary liquids. English origin 53 gal. drums is asked for 90 cts. per lb. No substantial business was recorded. Stearic acid. Some business has been done. Market firm. Australian origin single pressed with somewhat yellow color sold from \$1.02 to \$1.10 per lb. the triple pressed sold \$1.17 and now is

about \$1.30. White crystalline scale triple pressed sold \$1.65. Some forward sale due Hongkong early December was done at \$1.02 per lb. for the Australian origin single pressed white slabs. Potassium chloride. Inquiries came from North China and Foochow and some other cities. The most important buyer is North China where it is required to manufacture matches. Although the stock at present is not exhausted yet it gradually declined. After the advance last week, buyers have temporarily suspended big purchases but the market is still firm. It is presumed that the market will make no further advance until North China places new orders again. French origin 50 kg metal drums sold 79 cts. and then \$1.10 per lb. and USA origin 160 lb. or 200 lb. metal drums from 96 cts. to about \$1.20 (nominal). Cargo from Finland and of Swiss origin 50 kg wooden cases sold from 75 cts. to about \$1.05. Russian make with faint pink colour 50 kg kegs for which there was no interest before is now also sold around 75 cts.

Sodium sulphide solid. Market advanced but later eased. USA origin 725 lb. drums sold the highest \$1,500 per long ton. As about 200 tons Chin-chin brand 5 cwt drums arrived, the spot goods price came down to \$1,170 per long ton. Ten days ago there were many forward sales and over 100 tons were recorded. (English origin Double Key brand 6 cwt drums sold \$960 for late November arrival, but USA origin 725 lb. drums of mid November arrival sold \$850 per long ton. The English origin 6 cwt drums due Hongkong late December sold \$670 only. The spot goods of Chin-chin brand 5 cwt drums in lump form once sold \$1,250 per long ton as the solid is exceedingly scarce. Sodium sulphide flake. Several lots of 400 lb. drums sold \$930 per long ton. MBT. Business is active but not yet bullish. English Monsanto 224 lb. metal drums sold hundred drums from \$1.78 to \$1.83 per lb. As the end of this month there is a large shipment due, dealers wish to sell when a margin of profit is earned. Sodium hydro sulphite. Market upward. Stock is scarce. Some odd lots were asked at prohibitive price but buyers are unable to pay it. Whether English or French origin 1 cwt drums sold from \$185 to \$250 per picul for small lots, as no large stock available. The indent price for French origin is £150 per long ton cif. Glacial acetic acid. Several shipments have arrived. As these shipments were entirely sold to exporters, the market showed no downward tendency upon their arrivals. North China and Shanghai buyers continue buying and the market rose again. Now the Italian 25 kg carboys from \$1.32 to \$1.45, and Dutch origin 20 kg carboys asked \$1.60. Over 1,000 carboys of mid and late December arrival sold from \$1.10 to \$1.15 for the 25 kg carboys Zinc oxide. Market is considered firm. South African origin 50 kg bags gold seal sold 88 cts. and white seal 85 cts. per lb. Canadian origin 50 lb. bags blue seal at \$1.02 Belgian origin 200 kg wooden barrels sold 98 cts. stock is still plenty.

English origin 1 cwt bags at 91 cts. only. Phenol. Market continues active. At the week end business recorded was very large. It is anticipated that market will show further advance being on the present purchasing power. English origin or Australian origin 448 lb. drums sold from 90 cts. to 95 cts. per lb. Vaseline. Market sluggish towards active side. Hundreds of drums of snow white grade sold from 46 cts. to 48 cts. with export permit. However, the stock of light amber grade is rather short, its price from 30 cts. to 34 cts. per lb. Standard Vacuum snow white 400 lb. drums cannot be exported as it was bought with officially allocated US\$.

DPG. English Monsanto 150 lb. metal drums sold at \$2.24 per lb. D.N.C.B. Market active. Rather big business was recorded. After the English origin 300 kg drums sold \$1.35 per lb., the market rose and English origin 600 lb. drums sold from \$1.45 to \$1.50. ICI 280 kg drums climbed up to \$1.50. The indent order of English make is £102 per long ton cif. There are some shipments of American make on way to Hongkong. Paraffin wax. Market is rather active. Considerable business was recorded. AMP 143/150 nine slabs to one carton sold between \$88 and \$92 per picul. Then it suddenly rose to \$100. The forward sale due Hongkong end of November sold at \$80, and due mid December \$77. AMP 160/165 nine slabs to one carton sold from \$118/120 per picul, the market is firm but not so bullish as AMP 143/150. The indent price of fully refined wax continued to drop a few percent in USA, and thus it is profitable for importers to get cargo to the Colony. Red amorphous phosphorus. Stock is empty in Hongkong but demand is heavy due to high prices in Shanghai. French origin Au Lion brand 110 lb. cases firstly sold \$390 per case for shipment due mid November, and then up to \$420 for later arrival. In the past two weeks many indent orders were contracted for USA origin around \$260 per case. Sodium bicarbonate. Demand for USA origin 100 lb. bags and ICI Crescent brand 100 kg bags was strong but as the stock of both is scarce no large business was recorded. The price of the former is about \$26 per bag whilst the latter is still \$55. No new shipment of ICI will reach Hongkong until mid December and as it is anticipated that demand is urgent, its price will further rise. A small shipment of French origin 100 kg bags arrived here (200 bags). Soda ash. Demands for the USA origin 100 lb. bags dense were strong but stock is scarce. Recently a shipment of USA origin 100 lb. bags light reached Hong Kong and was asked for \$19 per bag. Zinc chloride. Scores of tons were sold. English and Belgian origin of 1 cwt drums sold from \$1,500 per long ton up to \$1,880, and then ruled easier \$1,770. Acetic anhydride. Regular demands, price unchanged. USA origin 448 lb., 450 lb. or 480 lb. drums sold lowest \$1.34 and highest \$1.40 per lb. Sulphur black. Large business was done in National's No. 693 100 catty drums, at \$400 to \$450 per picul. Sulphuric

Economic Developments in Shanghai & Tientsin

SHANGHAI

The price situation during the latter part of October steadily worsened as the food situation tightened in the face of supply shortages. A national financial conference is to be held in November or December.

Banking and Finance:—The People's Bank of China opened 7 branches in Shanghai's suburbs for the purpose of making agricultural loans. The money market tightened at the end of October covered with the daily interest rate going from 1 to 1.4 percent on October 25 on the absorption of funds resulting from government dumping operations.

Official foreign exchange rates remained unchanged until October 24. On that day the rate for US dollar notes was advanced to PB\$4,400 (up 200) while the T.T. rate on the same day was increased to 4,700 (also up 200). Exchange rates for drafts were also increased on October 24 for both the pound and the Hongkong dollar. The former was quoted at PB\$11,750 (up 500) while the latter advanced to PB\$630 (up 10). At the same time, however, official rates for notes in these currencies were reduced, the pound dropping to PB\$7,700 (down 350) and the Hongkong dollar rate to

PB\$555 (down 25). This was done in an attempt to obtain cheaply, pound and Hongkong dollar notes from South China. In Canton, the Hongkong dollar currency rate was quoted at PB\$550. (Official cross rates: US\$2.50 per £; HK\$746 per US\$100; HK\$18.65 per £).

The black market was inactive with the US dollar rate on October 24 quoted at PB\$4,500 (the same as October 17) while gold was bringing PB\$175,000 per tael, an increase of only 2,000 over the week. (Gold crosses from US\$39 to 39½).

Foreign Trade:—On October 19, the Foreign Department of the Bank of China instructed appointed banks to make sure that their agents or correspondents abroad make payment against shipping documents only where the latter agree with the letter of credit as to destination. That is, if the letter of credit calls for delivery in Shanghai while the bill of lading is made out to Hongkong as destination or transhipment point, then the latter must be changed to conform with the letter of credit. Otherwise, the appointed bank will be held responsible for foreign exchange inadvertently paid by the overseas correspondent or agent.

acid. Due to shortage of sulphur the local sulphuric acid manufacturers have suspended their production. Recently however new shipments of sulphur arrived. As demand exceeds supply, the price should further rise. At present the local make with returned drums is about 29 cts. per lb. (including drums 32 cts.). There were some lots of American make 75 lb. carboys at 55 cts. per lb. As packing and freight are rather higher from USA for such dangerous cargo, there is an opportunity for local manufacturers to make higher profits.

Borax. Medium business was recorded. Price steady. USA origin 1 cwt bags sold \$28 per bag, and 100 lb. paper bags at \$22.50. **Caustic soda solid.** Although the market is downward, yet business recorded was very large. The future market should come down more. Price in USA declined to US\$3.70 per 100 lbs. cif Hongkong. USA origin 700 lb. drums sold from \$279 to \$230 per drum, and delivery after two days at \$222, forward sale due late November at \$198 only. ICI Crescent brand 6 cwt drums sold from \$300 to \$260, and forward sale due first half of December \$220. **Sulphur.** Notwithstanding new shipments' arrival the market is still firm. Spot goods of 100 lb. bags powder form sold from \$38 to \$42 per picul. The lump form sold as high as the powder. Hundreds of tons of powder form sold at \$28 to \$38 per picul. **Bleaching powder 35%.** New shipments of ICI Red Heart brand 50 kg drums arrived, but price advanced. It sold \$36 per drum, then \$37.50 up to \$43. The English origin 1 cwt drums crossed straps on lid forward sale due late November is asked \$28 per drum, and spot goods

\$29.50. **Bleaching powder 70%.** USA origin 130 lb. drums sold \$2 per lb. but business was not much. **Extract of mimosa.** Elephant brand 1 cwt bags sold from \$51.50 to \$54 per bag, but business is limited. **Extract of quebracho.** Few buyers were in the market. Crown brand 105 lb bags sold small lots at \$83 per bag. The near future market is anticipated to be weak.

Aniline oil. Australian origin 448 lb drums advanced to 79 cts. per lb. and later on sellers asked 90 cts. Although some inquiries were in the market, due to heavy stock the market cannot be expected to be strong. **Glycerine.** Market is normal with somewhat easier tone. Pyramid brand 560 lb. drums sold between \$1.70 to \$1.74, and Dutch origin 250 kg drums sold \$1.68 per lb only. Both are CP quality. **Lithopone.** Dutch origin 50 kg paper bags sold 49 cts. per lb. The indent order for German make is 38 cts. only. USA origin 50 lb. bags sold 50 cts. **Rosin.** As native rosin is still higher in price, interest is shown for USA origin. The WW grade 515 lb drums sold \$80 per picul for arrival in early December. **Mercury.** No business was recorded. Price is about \$740 per picul for cargo either from Japan or Europe. **Double nickel salt.** This is the double salt of ammonium sulphate and of nickel sulphate. The English origin is packed 112 lbs per case. It is used for electroplating. Some lots were sold at \$130 per case. **Ammonium bicarbonate.** Small business was recorded. Crescent brand 1 cwt drums sold \$45 per drum. **Potassium ferrocyanide.** Crystal form sold in bulk at 90 cts. per lb. The 380 lb. fibre drums at about \$1.10.

The deadline for registration of goods that were off-loaded in Hongkong was again extended to October 25. It appears that some importers are unwilling to bring in goods, the distribution and prices of which will be strictly controlled.

The East China trade control authorities have collected some 7,700 tons of tea for export while private companies have collected about 3,300 tons.

Internal Trade:—In the period between September 26 and October 7, barter trade between Shanghai and the provinces amounted to the equivalent of but US\$360 for incoming goods and US\$105,000 for outgoing.

Railways:—The Minister of Railways reported that Soviet Russia has supplied some 312 miles of track and parts to China. Approximately 11,500 miles of trackage was reported to be in operation on October 10. Service on the Shanghai-Nanchang line has been resumed. Freight rates on machinery were reduced by 50 percent and furniture by 20 percent to encourage movements to the interior.

Commodity Tax:—In connection with the recent revision of commodity tax rates, the Shanghai authorities have now exempted fluecured tobacco leaf from the previous tax of 30 percent ad valorem. Reaction was varied: one trade source favoured its abolition as ridding the annoyance of local inspections and questions; others regarded the tax (on cigars and cigarettes) as too high in view of lowered purchasing power adding that Nationalist authorities never collected taxes exceeding 40 percent in value although the law called for a rate of 120 percent.

Tax authorities in Hankow have exempted hog bristles and tung oil from collection of the commodity tax in an effort to encourage their export.

Commodities:—End of October saw heavy dumping of foodstuffs on the market, which action, however, was insufficient to halt the rise of most staples as a result of increasing shortages of supply. The heaviest dumping was on October 24 when these operations amounted to the equivalent of US\$425,000.

Rice: While the sharp increase in the price of rice was halted temporarily as a result of dumping large quantities on the market the price went to PB\$40,000 a picul on October 24. As compared to the price on May 30, prices for rice have gone up 619 percent.

Flour: Despite dumping operations and present rationing of wheat flour, prices advanced sharply over the week, increasing from PB\$10,300 per 49 pound bag on October 18 to 13,900 on October 24. Flour is now up 667 percent over May 30 prices.

Cotton cloth. Despite the dumping of 10,000 bolts of cloth and 1,200 bales of yarn, the price per 40 yard bolt went from PB\$40,000 on October 17 to PB\$47,600 on October 25.

The parity deposit unit reflected this rise in prices, increasing from 809 on October 20 to 884 on October 25, the highest it has been since August 8.

TIENTSIN

Foreign Trade:—A total of 82 Shang-hai exporters have been registered with the North China Foreign Trade Control Bureau to engage in import-export trade via Tientsin. Some 27 of these are prepared to commence operations, while a few firms have already engaged in some export business with the United States and Europe.

The Tientsin Navigation Bureau reported that September ocean and coastwise shipping at Tientsin totalled 101 ships, a 35 percent increase over August. Of these vessels, 60 plied between Chefoo, Tsingtao, and Dairen; the remaining 51 connected with San Francisco, Seattle, Hongkong and Japanese ports.

Consular declared exports from Tientsin in September were valued at US\$1,618,572, an increase of 13 percent over the August figure. Of this total, woolen carpets were valued at \$398,315 or 25 percent; dried egg products, \$388,820 or 24 percent; raw furs, \$185,491 or 11 percent. Other items were: Strawbreads, \$98,724; bristles, \$87,948; cashmere wool, \$61,923; and horsehair, \$55,357. It is estimated that approximately a third of the September declared exports to the United States were for the account of the government-owned North China Foreign Trade Company, either directly or through private agents on a commission basis. For purposes of comparison, Tientsin declared exports in June, July, and August were \$1,560,624, \$1,705,533, and \$1,406,738 respectively.

The North China Import Company is to conduct business directly with foreign countries for the importation of raw materials and equipment. It will not handle domestic trade.

Taxation:—Discussions have been concluded upon the payment of the industrial and business tax (formerly called "income tax" for the first half of 1949). The tax burden is to be approximately 1½ times as great as the tax for the latter half of 1948.

Finance:—The official exchange rate for the US dollar was revised upward twice in the last two weeks of October. On October 10 US dollar notes exchange for PB\$4.300 (up 250 over October 6) while the rate for drafts was increased to PB\$3.800 (up to 300 over October 6). Again, on October 20, the US dollar rate was advanced to PB\$4,500 while the TT rate was increased to 5,000. On October 10, the exchange rate for the pound was increased to PB\$10,000 for notes and to PB\$13,000 for commercial drafts. After increasing the Hongkong dollar rate to PB\$620 for currency notes and PB\$685 for drafts, these were reduced on October 18 to PB\$580 and PB\$640 respectively.

Public Finance in Far Eastern Countries

Since the war there has been a great expansion of government activities in many Far Eastern countries. Owing to unsettled conditions and civil disorders, defence expenditures were not substantially reduced, while certain functions taken over by Governments as war exigencies continued to be performed by the civil administration after the war. In addition, there is a widespread demand for economic development in which the Government is not

only to play the role of a promoter but also that of an active participant. Despite these factors, which call for large government outlay, post-war budgets of the war-affected Far Eastern countries are low in terms of prewar prices, especially for the financial years 1946 and 1947. On the other hand, for those countries which were not directly affected by the war, there has been a continuous expansion of government budgets compared with pre-war.

Index of Government Revenues and Expenditures in Prewar Prices

Country	Prewar Base year	Revenue (prewar=100) Financial year beginning in	Expenditure (prewar=100) Financial year beginning in			
Burma ..	1939/40	40.1	47.7	65.4	66.7	58.6
China ..	1936/37	60.5	31.1	104.0	118.6	91.0
Hongkong	1939	32.5	66.0	65.4	37.1	57.8
Indochina	1939	13.7	25.7	38.7	13.9	26.0
Japan ...	1936	64.6	97.5	105.7	89.0	104.7
Philippines	1938	31.1	48.8	75.6	59.8	55.8
Siam	1938/39	40.2	46.0	107.1	78.5	59.1

The figures refer to Central Government finance only. The figures have been deflated to the prewar level by means of appropriate cost-of-living indices except for China and Japan for which retail price indices covering the same period as the revenue and expenditure figures are used. For 1948, the cost-of-living indices or retail price indices for the last month of the financial year 1947/48 or the average of several months in 1948 are used.

As regards public finance in China, the situation is such as to render accurate estimation impossible. First, the budget figures prepared in the beginning of the financial year were generally rendered obsolete by the rapid depreciation of currency, and in the absence of revised budgetary estimates or accounts figures the original budgetary figures do not reflect truthfully the actual financial position of the Government. Second, in view of the rapid rise in prices, the method of deflating annual budgetary figures by means of an annual average of the monthly price indices does not give a satisfactory result. Nevertheless, in indices for China, defective as they are, would seem to show that Government expenditure since the war has exceeded prewar levels. Moreover, before the war, nearly one-quarter of the annual expenditure of the Chinese Government was used for the payment of interest charges and the redemption of public debt, but since the war, as public debts have been virtually wiped out by inflation, the Government has been relieved of a large burden arising from debt services. Thus, the total resources actually available for other budgetary, mainly administrative, expenses should be much higher than a casual comparison with prewar budgets would indicate.

Commodities:—Commodity prices in general revealed an increase for the week ending October 20 as evidenced by the price of rice which advanced from PB\$200 (4.6 US cents) per catty on October 13 to 350 (7 cents) on October 13 to 350 (7 cents) on October 20.

Apart from the fact noted above that certain extraordinary expenditures, incurred during the period of rehabilitation and reconstruction, were not included in the regular budgets, the smallness of government expenditure in terms of prewar prices may be partly attributable to the under-payment of government employees. Almost all countries in the Far East experienced a period of inflation during and after the war. In face of the continuous rise in prices, government employees were generally hard hit, as their scales of pay and allowances were not subject to readjustment as frequently as the changes in the price level. Since the wage-bill constitute the main body of government expenditure, the lag in the wage-rates of government employees behind the price level naturally reduces the size of the government outlay when the latter is deflated by the price index. The fall in real wages and salaries is definitely harmful to the efficiency of the government machinery, and the need for frequent re-adjustments of wages and salaries in response to changes in the price level is, therefore, generally recognized. Provision for an increase in the remuneration of government employees was in fact made in budgets of 1947 and 1948, but in most cases, the increase was not adequate, especially in view of the continuing rise in prices. The general expansion of government expenditure in 1948 is attributable not so much to the betterment of the treatment of government employees as to the expansion of the functions and activities of various government departments, and in some countries civil disturbance.

On the revenue side, the first year after the war saw a sharp decline in government receipts. In the case of Indochina and the Philippines the revenue in 1946, in terms of prewar prices, fell to as low as 13.7 per cent and 31.1 per cent respectively of pre-war. For China, the revenue in 1946 and 1947 reached respectively about 60.5 per cent and 31.1 per cent of pre-war, but if certain extraordinary receipts, such as the proceeds realized from the sale of enemy properties, are excluded, it would fall to even lower proportions compared with pre-war. Except for Hongkong, there was a general improvement in revenue collection in 1948 as compared with 1947. However, in almost all war-devastated countries, e.g., Burma, China, Hongkong, Indochina and the Philippines, the estimated revenue for the financial year beginning in 1948, in terms of prewar prices, was still below the normal level of revenue collected before the war.

If receipts and expenditures are taken together, the budgetary situation for the countries appeared to be better in 1947 and 1948 than in 1946.

Index of Budget Deficits (Base Year 1946=100)

	1947	1948
Burma	26.9	133.4
China	64.8	63.5
Japan	49.2	18.0
Malaya	26.9	93.5
Philippines	27.2	68.6
Siam	44.0	34.4

For the financial year 1948, the increase in revenue appeared to be more than offset by the increase in expenditure, with the result that, for all countries except Japan and Siam, the deficit of 1948 seemed to be larger than that of 1947. In the case of China, the estimate for 1948 was projected from

the first half-year budget published in the beginning of the year. It merely represented the planned figure of the Nanking Government. In view of the deteriorated condition in the second half of the year, the actual deficit was probably much larger than what had been originally provided for. In the case of Burma and Malaya, the increased deficit for 1948/49 was due to the lack of internal stability which curtailed the tax yield and called for large expenditure to meet emergencies. Taking into account these special circumstances, one may conclude that with the exception of those countries which were suffering from civil disturbances, the Far East as a whole has made considerable progress in improving its financial position since the end of the war.

Government Expenditure

Immediately after the war, relief and rehabilitation was the most urgent task in the war-devastated countries, while in others, demobilization and reconversion called for large government outlay. It is, however, not possible to obtain a complete picture of these abnormal expenditures. In China, for instance, goods for relief and rehabilitation purposes were largely supplied by UNRRA, and the appropriations for the operation of CNRRA, an agency created by the Chinese Government for the distribution of UNRRA supplies, were misleadingly small; amounting to only 0.4 and 2.0 per cent of total government expenditure in 1946 and 1947 respectively. For the same two years, the expenses listed by the Chinese Government under the heading of "relief and rehabilitation" accounted for only 2.0 and 2.6 per cent respectively of the total expenditure. In Burma, the cost of operating the Civil Affairs Service (Burma), created by the British military authorities during the period of

reoccupation, was borne by the United Kingdom Government. In the Philippines, relief and rehabilitation were largely covered by the war-damage payments made by the United States Government under the Philippine Rehabilitation Act of 1946. It is due to special circumstances such as these that the magnitude of extraordinary outlay required for re-occupation, relief and rehabilitation cannot be satisfactorily ascertained from government budgets proper.

Barring this feature of post-war finance, a comparison of prewar and postwar government budgets indicates several notable changes both in expenditure and in revenue. First, subsequent to the formation of independent national Governments or the attainment of a higher degree of self-government, a greater share of government budget has been allotted for defence services in Burma, Malaya and the Philippines. In some cases, withdrawal of the troops of the metropolitan Powers necessitated the newly-established national Governments to expand their armed services, while in others, internal difficulties also compelled Governments to maintain and equip a large army to meet emergencies.

Share of Defence Service in Government Expenditure

Country	Prewar	year beginning in Postwar Financial		
		1946	1947	1948
Burma ..	14.1	8.0	19.2	17.8
China ..	41.0	45.9	50.7	51.5
Japan ..	47.2	—	—	—
Malaya ..	—	0.1	1.5	2.4
Philippines	12.9	18.6	20.8	13.4
Siam	25.3	—	—	—

Government Revenue, Expenditure and Surplus/Deficit (in million currency units)

Financial year beginning in	Burma (rupees)	China (CNS)	Hongkong (HK\$)	Indochina (piastres)	Indonesia (guilders)	Japan (yen)	Malaya (MS)	Philippines (pesos)	Siam (baht)
Prewar ..	Revenue	180.3	1,029.4	41.5	115.3	596.6	7,823	137.1	186.0
	Expenditure	163.8	1,334.9	37.9	113.6	649.0	8,432	139.2	138.2
	Surplus/Deficit	+ 16.5	—	+ 3.6	+ 1.7	- 52.4	—	609	— 2.1 — 3.0 — 20.0
1942	Revenue	—	5,267.8	—	184.2	—	17,136.0	—	—
	Expenditure	—	24,511.1	—	151.7	—	31,965.8	—	—
	Surplus/Deficit	—	—	19,243.3	—	+ 32.5	—	14,829.8	—
1943	Revenue	—	16,517.3	—	227.1	—	27,003.2	—	—
	Expenditure	—	57,881.8	—	176.5	—	47,458.0	—	211.6
	Surplus/Deficit	—	—	41,364.5	—	+ 50.7	—	20,454.8	—
1944	Revenue	—	36,315.1	—	219.1	—	115,787.6	—	—
	Expenditure	—	172,077.9	—	219.1	—	158,311.5	—	288.9
	Surplus/Deficit	—	—	135,762.8	—	—	—	42,523.9	—
	(CNS thousand million)								
1945	Revenue	—	1,196.5	—	299.7	—	59,403	—	—
	Expenditure	—	1,258.2	—	299.7	—	116,316	—	465.7
	Surplus/Deficit	—	—	61.8	—	—	—	56,913	—
1946	Revenue	283.8	2,817.6	82.1	293.0	—	91,896	129.7	183.0
	Expenditure	429.2	7,191.0	85.6	293.0	—	136,396	222.8	359.8
	Surplus/Deficit	-145.4	—	4,373.4	—	3.5	—	44,500	— 93.1 — 176.8 — 654.0
1947	Revenue	319.4	12,135.0	150.1	742.1	—	373,516	261.5	263.2
	Expenditure	356.4	46,004.1	120.1	741.1	—	432,413	286.3	307.4
	Surplus/Deficit	-37.0	—	33,869.0	+	30.0	+ 1.0	-1,930	— 58,897 — 24.8 — 44.2 — 344.7
1948	Revenue	459.4	56,280.9	151.4	1,249.9	—	1,069,583	277.5	392.3
	Expenditure	646.4	96,276.8	150.3	1,249.9	—	1,126,488	364.6	498.8
	Surplus/Deficit	-187.0	—	39,995.7	+	1.1	—	—	— 56,905 — 87.1 — 106.5 — 182.1

With the re-establishment of more normal conditions defence expenditure in these countries will no doubt be considerably reduced but judging from the experience of other independent countries, its share in the future budget may continue to be higher than it was before the attainment of independence.

The Far East is entering an age of economic reconstruction and development. It is therefore desirable to examine the place of economic development in government outlay.

In Indochina a special budget was created by a decree of 30 April, 1948 which is to cover the cost of rehabilitation and development. The budget is financed partly by the Treasury of the French Union and partly by the member States. The total amount approved at the Economic Conference in Dalat in December 1948 was 1,007 million piastres, equivalent to 80.6 per cent of the size of the ordinary budget.

In Burma, economic reconstruction and development was to be carried out in accordance with a Two-Year Plan of Economic Development, drawn up in 1947 and published in April, 1948. The financial requirements of this Plan are not ascertainable. In view of the financial difficulties facing the Government, few funds have been actually available for developmental projects in the last two years. In the 1946/47 and 1947/48 budgets, capital outlay on forests, irrigation, posts and telegraphs, civil aviation and electricity, not including public works, accounted for only 1.2 per cent and 3.6 per cent respectively of total government expenditure.

In the Philippines, a comprehensive 10-year plan of economic development was prepared by the technical staff of the National Development Company under the supervision of the H. E. Beyster Corporation of the United States in October, 1947. Although private investment is expected to be at a high level, the major share of the cost of executing the development plan will have to be borne by the Philippine Government. No special capital account is kept for developmental expenditures, but most of the capital outlays are included in the extraordinary budget, as distinct from the ordinary budget. In 1937 and 1938, "outlays and investments," not including public works, accounted for 15.3 per cent and 13.9 per cent respectively of the total government expenditure, while in 1947/48 and 1948/49, "economic development" represented 14.2 per cent and 15.2 per cent respectively of the total expenditure. As the figures are not exactly comparable, it is not possible to conclude whether developmental expenditure has increased compared with prewar.

In China, economic development programmes were seriously hampered by the civil war. Appropriations for economic development reached a record high level in 1939, accounting for about 40 per cent of the total budget: after the war, however, they dropped to about 20 to 30 per cent, while in 1946, they amounted to only 16 per cent of the budget. These figures are not strictly comparable, as in recent years,

reliance has been increasingly placed upon loans from government banks to finance capital expenditure in government industries, communications, etc.

A noteworthy development since the war has been the increasing share of capital outlay for economic development in the budgets of several countries. Even in the case of those countries which, owing to internal difficulties, could not raise large sums for economic development, or even had to cut appropriations for such purposes, the setback may be regarded as temporary; with the re-establishment of normal conditions, economic development will certainly occupy an important position in their annual outlay. The question of the inflationary effect of large capital outlays, financed by borrowing, has to be considered. Governments are aware of the danger, and have adopted a cautious attitude in framing budgets for the year 1949/50.

A further notable change in government finance since the war has been the decreasing share of debt service in total government expenditure. Most countries have been plagued by inflation, but one of its beneficial effects, at least so far as Governments are concerned, is the lightening of the debt burden.

Government Revenue

On the revenue side, countries of the Far East have relied mainly on indirect taxes, especially customs duties. Since the war, Japan has made considerable progress in the collection of income tax, while in other countries, notably the Malayan Federation, Singapore and Hongkong, steps have been taken to introduce income tax for the first time in their peace-time financial history.

Among indirect taxes, customs duties probably occupy the foremost position in all countries except Japan, where, before the war, customs duties accounted for only 8 to 9 per cent of total revenue while income from monopolies was as high as 13.5 per cent. After the war, the size of the customs revenue in different countries has been variously affected by inflation and the fall in the volume of external trade. To those countries, where there was a high level of trade after the war, customs duties continued to provide an important source of revenue. In Brunel and Sarawak the proportion of revenue contributed by customs duties was as high as 44.8 per cent and 62.9 per cent in 1946, and increased to 53 per cent and 70.2 per cent in 1947 respectively. In the Malayan Federation, customs revenue accounted for 61.1 per cent of the total revenue in 1946/47 and increased to 75.7 per cent in 1948/49. In other countries where foreign trade came to a standstill immediately after the war or where imports were drastically restricted by trade and exchange control, customs revenue has declined considerably. In China, customs duties yielded 39.3 per cent of the total revenue in 1936/37, but fell to 11.6, 19.2 and 11.7 per cent in 1946, 1947 and 1948 respectively. In Japan, 9.0 per cent of the revenue in 1935/36 was derived from customs, but since the war, customs duties fell to insignificant proportions owing to the collapse

and subsequent slow recovery of foreign trade.

Of direct taxes, income tax seems to promise great potentialities both for revenue purposes and for securing a more equitable distribution of incomes, for countries on the road to industrialisation. Before the war, income tax was collected in several countries although the scope and method of collection differed widely. In Burma, the Philippines and Japan, income tax yielded about 10-15 per cent of total revenue in the immediate prewar years, while Indonesia and Siam derived about 5.6 and 1.5 per cent of their total revenue (both ordinary and extraordinary) from income tax in 1938 and 1938/39 respectively. China started collecting income tax in 1936/37, when the yield was estimated to be only 0.5 per cent of total revenue.

The success of Japan in developing income tax as a major source of revenue is doubtless attributable to the relatively advanced stage of industrial development. For countries which are predominantly agricultural or are confined chiefly to primary production, it may not be easy to collect income tax along modern lines. With improvement in tax-collecting machinery, however, there seems to be ample room for increasing the income tax yield in a number of countries particularly China, where the existence of a relatively large number of modern cities with industrial and commercial establishments should form a convenient basis for checking and collecting income tax returns.

Methods of Deficit Financing

As most countries of the Far East had unbalanced budgets after the war, it is of interest to see how the deficits were financed and what were the economic effects of deficit financing. In addition to central government finance, the finances of local or provincial Governments are also important, since any deficits or surpluses in local or provincial budgets will have repercussions on the national economy. The analysis which follows will be confined to central government finance.

The budgetary figures, as published by Governments, do not always represent total Government outlay. Some expenditures, considered by Governments to be of a special or abnormal nature, are often not included in the regular budgets. Budget deficit, in its formal sense, was often, therefore, not identical with the total deficit actually incurred. In China, until the latter half of 1948, when an extraordinary budget was created, the budget figures published by the Chinese Government were comprehensive in nature, but it is well known that certain outlays, mostly capital expenditure, did not appear in the budget but was financed by loans from government banks. In 1946 and 1947, the total amount of loans approved by the Joint Office of Four Government Banks was equivalent to 10.5 per cent of the size of the budget of both years. This does not include loans granted directly by government banks (i.e., without clearing through the Joint Office of Four Government Banks). In

Indochina, a special budget was prepared for economic reconstruction and development, its resources not being given in detail. In Japan, in addition to deficits in Special Accounts — the General Account being generally balanced — very large loans were granted by the Reconstruction Finance Bank. In 1947/48, the total authorized borrowings of the Reconstruction Finance Bank amounted to 60,000 million yen, larger in size than the budget deficit which was reported to be 58,900 million yen. In Siam, ordinary budgets are kept separate from extraordinary budgets; full details of the latter are not available.

As to the ways and means of financing government deficits, four methods are commonly in use: (1) issue of long-term loans; (2) short-term borrowings; (3) drawings on accumulated assets or reserve funds at home or abroad and (4) loans or grants from abroad.

In China, where inflation has been most rapid, government deficits were chiefly financed by direct borrowings from the Central Bank. Whenever the Ministry of Finance needed money, a form of paper known as a "Treasury Certificate" was handed to the Central Bank. This was used by the Central Bank as security for the creation of new deposits or the issue of new currency. This process of deficit financing was ineffectively offset by heavy sales of foreign exchange by the Government. Up to February, 1936, the Chinese Government also resorted to the sale of gold as a means to finance the budget deficit and curb inflation. The gold was procured in the United States out of the US\$500-million loan granted by the United States Government in 1942. In 1944, the total proceeds realized from the sale of gold amounted to CNY17,455 million or about 11 per cent of total Government expenditure, but in 1945 and 1946, these sales brought in only CNY10,290 million and CNY19,598 million, or about 0.8 per cent and 0.3 per cent of total government expenditure respectively. (The quantities of gold sold were as follows: 1944: 30,214.6 kgs., 1945: 25,356.2 kgs., 1946 (Jan.-Feb.): 6,881.5 kgs.) The sales of gold was suspended on Feb. 13, 1946. After the war, owing to the instability of the domestic currency, it was impossible for the Government to float domestic loans. In 1947, the Government planned to issue bonds and short-term treasury bills in terms of US dollars, which were to be sold on the domestic market for Chinese currency at a rate of exchange to be fixed by the Government. A total issue of US\$100 million in bonds and US\$300 million in treasury bills was authorized but the actual subscription fell far below expectations. The failure to attract private capital to government bonds and treasury bills was due partly to lack of confidence and partly to the fact that the rate of exchange used by the Government for converting US dollars into Chinese currency was unfavourable as compared with the curb-market rate. In March 1948, the issue of short-term US dollar treasury bills was suspended. In April, the Government introduced a

new kind of short-term interest-bearing treasury bill which was to be issued in Chinese currency and sold on the market at a discount by the Central Bank. By selling these bills at varying rates of discount, the Central Bank could compete with commercial banks and private firms in borrowing short-term capital from the market even during a period of runaway inflation. For short-term operations, this method of financing gave the Central Bank a powerful weapon to control the money market, but in financing government deficits, these bills, being short-term in nature, were of very limited use. Since the middle of 1948, the Government attached much hope to United States aid as a means of financing the budget deficit. The aid was granted by the United States Congress in April 1948 for economic rehabilitation of China, covering a period of one year from 3 April, 1948 to 2 April, 1949, and amounted to US\$275 million in addition to a sum of US\$125 million for the purchase by the Chinese Government of military supplies. Of the total economic aid, a sum of US\$35 million was earmarked for industrial and development equipment, and US\$1.2 million for administrative expenses. The rest was to be used for the import of foodstuffs, cotton, petroleum products, fertilizers etc., the proceeds from the sale of which were to be credited to a special account kept with the Central Bank. The balance in this special account, after meeting existing commitments, such as expenses for the rural reconstruction programme, freight for relief parcels, etc., might be either frozen or utilized for relief and reconstruction payments by the Government. The latter would have the effect of reducing the government deficits; as an offset to inflation, however, it was immaterial whether the balance was frozen or applied to reduce the budget deficit. It was estimated that the amount which could be utilized in this way was of the order of US\$60-100 million, as against an estimated annual budget deficit of US\$300-400 million. To the end of January 1949, however, only about 71 per cent of the total economic aid to China had been authorized by the United States Government, and the shipments of aid supplies which had actually reached China seemed to be much less. Consequently, the total credited to the special account up to the end of 1948 was not large enough to produce any appreciable offsetting effect on the hyper-inflationary situation, although the arrival of large shipments of essential commodities, such as petroleum, cotton, rice, etc., which would otherwise have been seriously cut, helped to prevent a further deterioration of the supply position in China.

Second only to China, Japan has also been in the grip of runaway inflation. The Japanese Government relied almost exclusively on bank credits for financing its budget deficit. Although several forms of borrowing, namely, government bonds, treasury bills, food, silk and fuel certificates, and direct borrowings were used, the net effect was much the same, since during a

period of inflation, private saving cannot be tapped by government loans, and all forms of borrowing invariably result in the creation of new money. During the years 1946/47 and 1947/48, the net increase in national debt in Japan, in fact, exceeded the published budget deficits, and the increase in note issue in turn exceeded the net increase in national debt.

Among other countries which incurred budget deficits, Burma's position is particularly serious, because it has very limited resources on which to fall back. For the first two years after the war, its very large deficits were mainly financed by advances from the United Kingdom Government under the terms of the Burma-United Kingdom Financial Agreement. Treasury bills were also issued from time to time to bridge the gap between revenue and expenditure. In the 1948/49 budget, the deficit increased. Besides the rigorous enforcement of retrenchment policies, mainly through the reduction in government personnel and a cut in the pay and cost-of-living allowances of government servants, the Government of Burma has announced its wish to secure further foreign loans to meet the deficit.

The postwar budget deficits of the Philippine Government were largely financed by (1) a loan of P120 million granted by the United States Reconstruction Finance Corporation in 1947, (2) the proceeds of the Financial Interest Protection Bonds in the amount of P10,156,000 and (3) a sum of P12,539,500 from the sale of U.S. Treasury Bonds issued to guarantee prewar military equipment loaned to the Philippines by the United States. These foreign funds strengthened the Government's balance of payments position and made possible the heavy influx of foreign imports which served to lower domestic prices and reverse the inflationary tendency of the war and immediate postwar years. As an indication of the improved financial position of the Government, the budget for 1949/50 anticipated a surplus of P12 million.

Since the war, both the Federation of Malaya and Singapore have had unbalanced budgets, the deficits being largely met by the issue of domestic loans. In 1946, Malaya issued a 2½% Loan of M\$7,157,100 and a 3% Loan of M\$51,581,500 and Singapore issued a 3% Rehabilitation Loan of M75 million. The proceeds of these loans were partly carried forward to meet the extraordinary expenditures of the subsequent years.

On the other hand, the ordinary budget of Indochina has been balanced in the last two years, and Hongkong, with the exception of the first year after liberation, realized surpluses from its revenue.

In general, countries of the Far East, with the exception of China and, to a lesser extent, Burma and Japan, have made steady progress in improving their financial situation since the war. Deficits still occurred in many countries, but in most cases, they were not unmanageable. With increased internal stability less funds may be allotted for

Japan's Public Finance for 1949—1951

The Government, at the close of September, drafted two major budgetary programs, that is, the General Account Supplementary Budget for the 1949-50 fiscal year and the General Account Budget Plan for the 1950-51 fiscal year. These plans were laid before SCAP authorities in charge for approval. In the Supplementary Budget, a total expenditure aggregating Y35,100,000,000 is provided, including the Y9,000,000 fund for transfers to local governments, the Y9,000,000 public works expense and the Y5,400,000,000 fund for covering deficits in the Fuel Special Account. In addition, the Supplementary Budget also demands an Y27,500,000,000 appropriation for covering deficits emanating from tax slashes required under the Shoup recommendations, particularly for covering the deficit resulting from the prolongation of the exemption period for the business income tax. As major sources of revenue for coping with such new appropriations, the Government, in the present plan, depends upon the Y34,700,000,000 to be economized in the price adjustment subsidies and the Y20,600,000,000 surplus to be brought over from the preceding fiscal year.

Supplementary Budget Plan General Account for 1949-50

(In Y100 million)

Curtailment and Economization of Expenses:	
Government Bond Expense	6
Price Adjustment Subsidies	347
Total	353
Revenue Increases:	
Surplus for 1948-49	206
Price Differential Refund	30
Miscellaneous Income	21
Total	257
Additional Expenditures:	
Transfers to Local Governments ..	90
Public Works Expense (inclusive of Disaster Recovery Expense) ..	90
Government Investment (National Finance Bank)	8
6-3 Education Program	15
Deficit Covering Expense (Fuel Special Account)	54
Unemployment Relief Expense ..	8.5
Subsidy to Civilian Merchant Marine Commission	20
Total (including others)	351

Of the additional expenditures in the Supplementary Budget program, the Y5,400,000,000 expense for covering deficits in the Fuel Special Account is indicative of the slackness in the governmental distribution system. The advent of such a deficit is attributable to three major demerits. In the first place, the prices of charcoal and firewood were nearly doubled due to the official price revision in June, 1948, thus boosting profits of producers and increasing production. Consumption, however, failed to keep pace and stockpiles hiked. In the second place, requisitions by the fighting services during the war and dishonest disposals of stocks by officials in charge, and natural disasters after the war's termination, caused unexpectedly large

defence purposes, thus leaving more money for development projects. Also, with economic recovery and development, revenue collection may be increased.

complicity with competent officials of local charcoal control depots, made bogus transactions in which they had their deliveries registered in books and losses in stocked goods. In the third place, some local charcoal producers, in obtained payments but did not actually deliver goods. All such loopholes resulted in total deficits of Y5,400,000,000 in the Fuel Special Account, thus compelling the Government to include an appropriation to cover such deficits. Equally large losses are expected in the account of the Coal Distribution Corporation, the exclusive coal distribution machine, which is destined to be dissolved soon. The Foodstuff Distribution Corporation, which is the largest-scaled of official distribution organs still functioning, is constantly subjected to public criticism for its bureaucratic administrative policy, the irregularity of quantities and the unreasonable inferiority of foods distributed.

It is very likely that the political responsibility for deficits in the Fuel Special Account as well as various defects in the administrative functions of governmental corporations will be severely scrutinized at the coming session of the National Diet. However, the Diet itself cannot be completely free from criticism for letting the problem assume the present unwelcome phase. At the same time, the improvement of the food distribution system, one of the greatest concerns of the people today, should be examined by Diet members, and a positive measure necessary to bring about such improvement should be taken. As long as the Diet remains positive and serious-minded in the study of problems troubling the people and in the adoption of proper counter-measures, it would still not be difficult to retain public interest in parliamentary government, despite the recent tendency toward alienation from political parties.

* * *

In the General Account Budget Plan for the fiscal year of 1950-51, the Government estimates the revenue at Y615,300,000,000 and the expenditure at Y585,300,000,000, with the consequent revenue excess of Y30,000,000,000. As the Government is intending in the present plan to appropriate the Y30,000,000,000 revenue excess to the redemption of Government bonds, the Government bonds expense for the fiscal year under review, inclusive of bond interest payment, is estimated at Y63,200,000,000 or an increase of Y50,200,000,000 over the corresponding expense in the 1949-50 year. However, it should be noted that Government debts were paid back out of expense items other than the Government bond expense during 1949-50. Inclusive of such payments, therefore, the amount of Government bond redemption during the current fiscal year would well reach Y60,000,000,000. On the other hand, the Government bond expense for 1950-51 includes about Y10,000,000,000 in interest payment with the remaining Y53,000,000,000 appropriated

for redemption. Hence, the amount of actual redemption in the next fiscal year would be about Y7,000,000,000 less than the current fiscal year, although it would still eclipse the amount of bond redemption of Y30,000,000,000 as recommended by the Shoup Tax Mission by Y23,000,000.

Among the expense items for the 1950-51 fiscal year, the largest item is the transfer for equalization of local finances amounting to Y120,000,000,000, which was newly created under the Shoup recommendations. The new item in the proposed 1950-51 budget is the combination of ordinary transfers and various subsidies to local governments. This expense item, which totals Y85,000,000,000 during the current fiscal year was required to be boosted to Y120,000,000,000 for the 1950-51 year by the Shoup Recommendations. The next largest item is the \$102,000,000,000 public works expense, or an increase of Y39,600,000,000 over the corresponding item for the current fiscal year inclusive of a supplementary budget appropriation. In this item, the disaster recovery expense is shown to increase by Y23,200,000,000 while a new Y25,000,000,000 expense is appropriated as disaster prevention expense. Due to the lack of sufficient funds for recovery and preventive operations during and after the war, Japan has sustained large damages due to natural disasters. Now that supplies of raw material and labour have become comparatively abundant, the Government has been urged to increase the budgetary appropriation for public works undertakings. Such a step is considered advisable from the standpoint of preventing the advent of a deflationary trend. Under these circumstances, the Government policy to increase the disaster recovery expense and to inaugurate a new appropriation for disaster prevention is considered timely and appropriate.

On the other hand, some expense items would be drastically curtailed in the 1950-51 budget plan. The price adjustment subsidy is one of major items due to be subjected to a big slash. In the 1949-50 main budget, the price adjustment subsidy was placed at Y202,200,000,000, of which the transfer from the previous fiscal year accounted for Y15,000,000,000. With the current year's appropriation to be curtailed by Y34,700,000,000, the actual outlay for price adjustment subsidies would dwindle to Y152,500,000,000. In the 1950-51 fiscal year, this expense will further be slashed to Y82,500,000,000, or by about a half. Regarding the allocation of the price adjustment subsidy, moreover, the Finance Ministry and the Price Board are divided. The Price Board insists on placing stress on iron and steel, fertilizers and soda products, while the Finance Ministry is in favour of giving priority to foodstuffs. The second largest cut will be made of the expenses for governmental investments as the 1950-51 budget plan calls for a Y71,900,000,000 slash in this item. Government investment in the Reconstruction Finance Bank which totalled Y30,000,000,000 during the 1949-50 fiscal year and the transfer to the Foreign Trade

Special Account which amounted to Y40,000,000,000 are completely absent in the 1950-51 budget plan. On the other hand, the Y5,000,000,000 housing fund and the Y3,000,000,000 investment in the National Finance Bank will be newly appropriated. The war termination expense will also dwindle by Y27,000,000,000 for 1950-51. Due to such slashes, the expenditure in the 1950-51 budget plan will stand at Y615,300,000,000 or Y89,000,000,000 less than the 1949-50 expenditure.

Expenditure in 1950-51 Budget Plan

(In Y100 million)

	1949-50 Suppl. Main menary	Budget	Budget	Total
Expense Items 1950-51				
War Termination	982	1,252	0	1,252
Public Works	1,020	526	98	624
Govt. Investment	130	842	7	849
Price Adjustment	825	2,022	-347	1,675
Govt. Bonds	632	136	— 6	130
Transfers to Local Government	1,200	850	90	940
Total (including Others)	6,153	7,046	1	7,045

The foregoing 1950-51 budget plan was compiled on the following assumptions: (1) The present budget plan is based on the same price units as those used in compiling the 1949-50 budget; (2) the national income is presumed to remain almost unchanged at the 1949-50 level of Y2,970,000,000,000; (3) the rice price is to be elevated on the basis of the parity index of 160; (4) Land and marine freight rates are to be raised by 80 per cent and 93 per cent, respectively, as from December, 1949; (5) the cost of living is liable to soar by 6-7 per cent due to the gains in the rice price and freight rates. Such gains are to be counter balanced with tax cuts; (6) the budgetary personnel volume is to be based on the provisions of the Table of Personnel Law. No new increases are expected and a certain natural decrease in the number of personnel is envisaged due to the dissolution of certain government corporations and decontrols of some key products. It may well be seen that in the 1950-51 budget plan no special consideration is being given to the possible effects of the pound sterling devaluation on Japan's export and import transactions.

* * *

In the 1950-51 Budget Plan, the revenue is placed at Y615,300,000,000. Under the Shoup recommendations, it was suggested that the transaction amount tax should be abolished when the expenditure in the General Account comes to stand less than Y451,000,000,000, exclusive of the redemption of governmental debts and the transfer to local governments. In the General Account of the 1950-51 Budget Plan, the expenditure is estimated to total about Y442,000,000,000, exclusive of the above-mentioned two items, thus envisaging the early abolition of the transaction amount tax.

In the meantime, income from taxes and stamps in the estimated 1950-51 revenue is placed at Y410,800,000,000 or Y103,800,000,000 less than the income from the same sources in the revenue for the current fiscal year and Y45,200,000,000 less than the corresponding in-

FAR EASTERN ECONOMIC REVIEW

JAPANESE INDUSTRIAL REPORTS

Rolling-Stock

Japanese rolling-stock manufacturers are, as it were, subcontractors for Government railways. Of the 1948-49 production, for instance, 79 per cent was delivered to the former Ministry of Transportation (at present the National Railway Corporation), while on the other hand 21 per cent was for private railroads, and only 9 per cent was shipped abroad. Such being the case, the drastic retrenchment of the 1949-50 budget has brought about far-reaching effects on the rolling-stock industry.

During the 1948-49 fiscal year, rolling-stock production totalled Y11,211 million. This means that rolling-stock companies were operating at about 50 per cent of capacity, as their annual output is estimated at nearly Y21,000 million. It must be mentioned, however, that the 1948-49 output figure includes those cars for which output quotas were allotted before the compilation of the 1949-50 budget and for which appropriations have to be made from the 1949-50 budget, although they were fabricated during the 1948-49 fiscal year. At the outset of 1948-49, an extensive program was mapped out to rebuild 80 steam locomotives and to

come as suggested in the Shoup recommendations. Among tax incomes for the next fiscal year, the largest decrease is expected to mark the individual income tax which will dwindle by Y82,200,000,000 from Y310,200,000,000 for the current fiscal year to Y228,000,000 or Y62,000,000,000 less than the Shoup-suggested Y290,000,000,000. This sharp slash is chiefly attributable to the elevation of the earned income credit from the Shoup suggested 10 per cent to 15 per cent, applicable to the maximum limit of Y27,000 instead of Y24,000 suggested in the recommendations. Moreover, the top tax rate of 55 per cent in the schedule of progressive income tax rates, originally suggested to be applicable to incomes exceeding Y300,000 (\$833), is scheduled to be made applicable to incomes exceeding Y1,000,000 (2,777), thus further diminishing the income tax revenue.

The income from the corporate tax for the 1950-51 fiscal year is placed at Y55,000,000,000, Y20,000,000,000 more than the Shoup-suggested amount and Y27,800,000,000 larger than the income from the same source in 1949-50. Of this, about Y20,000,000,000 is expected to represent the tax on profits from assets revaluation. The profit from the tobacco monopoly is placed at Y120,000,000,000, equalling the income from the corresponding source in the current fiscal year and in exact accordance with the Shoup recommendations. The Government expects to be able to guarantee Y120,000,000,000 tobacco monopoly income through a reduction of prices and an elevation in the quality of various popular brands. The 1950-51 revenue also lists the income from the liquor tax at Y90,000,000,000, Y25,000,000,000 more than the corres-

ponding income in the current fiscal year and Y10,000,000,000 greater than the Shoup-suggested figure, and Government experts are certain that this goal can be reached through price reduction and increased production.

The textile consumption tax is to be discontinued in the next fiscal year, while the commodity tax will be about Y10,000,000,000 less than the Shoup-suggested Y27,000,000,000, due principally to larger tax cuts than the recommendations suggested. Through such manipulations, the revenue in the general account for the 1950-51 fiscal year will aggregate Y615,300,000,000 or Y30,700,000,000 less than the Shoup-recommended Y646,000,000,000. As the estimated 1950-51 revenue includes Y20,600,000,000 in surpluses from the preceding fiscal year, the actual amount of government funds to be withdrawn by the Government during 1950-51 will register Y594,700,000,000 or Y107,200,000,000 less than the 1949-50 revenue of Y701,900,000,000.

(1) Rolling-stock Output

(In million yen)

	1948-49	1949-50 (Estimate)
Government Railways	8,834	1,155
Private Railroads	1,297	1,907
Exports	1,080	1,804
Total	11,211	4,866
Percentage, %	100	43

To cope with such a predicament, there is no alternative but to get more orders from private railroads and for-

coming income in the current fiscal year and Y10,000,000,000 greater than the Shoup-suggested figure, and Government experts are certain that this goal can be reached through price reduction and increased production.

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Revenue in 1950-51 Budget Plan

(In Y100 million)

Revenue Items	1950-51 Budget	Recom- mended Budget by Shoup Plan	1949-50 Budget
Individual Income Tax	2,280	2,900	3,102
Corporate Tax	550	350	272
Tobacco Monopoly Profit	1,200	1,200	1,200
Textile Consumption Tax	0	0	173
Commodity Tax	170	270	270
Transaction Amount Tax	0	0	451
Liquor Tax	900	800	650
Surplus from Preceding Year	206	—	30
Total (incl. others)	6,153	6,460	7,049
(Revenue from Taxes & Stamps in Total	4,108	4,560	5,146

eign customers. In fact, a good deal cannot be expected of private railroad operators as they have already completed their postwar replenishment programs in many cases. Promotion of rolling-stock exports, therefore, is the only way to get out of the present depression. A Y1,800 million contract recently was concluded with Thailand, covering 50 steam locomotives, 120 passenger coaches and 500 freight cars, and inquiries are coming increasingly from Pakistan and South America. But transactions have not been too encouraging on the whole since the adoption of the Y360 exchange rate. The reasons are: (1) Japan-made cars are not necessarily cheap enough to compete with those exported by Italy and Germany, and (2) China, the largest client before the war, is still a closed market to Japanese rolling-stock makers.

Another damper for rolling-stock interests is that repair works, which have thus far been ordered to private makers, are now monopolized by the engineering works of the National Railway Corporation as a result of budget retrenchment.

Such being the circumstances, prospects are gloomy even for the so-called big five makers—Nippon Rolling-stock, Kawasaki Rolling-stock, Kisha Seizo Rolling-stock, Mitsubishi Heavy Industries and Hitachi, to say nothing of other minor interests. These five makers, manufacturing all sorts of rolling-stock from locomotives to electric cars, handled nearly 80 per cent of the 1948-49 production (cf. Table 2). In terms of value, Nippon Rolling-stock's 1948-49 output aggregated Y2,289 million; Kawasaki Rolling-stock's Y1,108 million; Hitachi's Y1,040 million; Mitsubishi Heavy Industries' Y973 million; and Kisha Seizo's Y861 million. It is to be noted, however, that these figures include rolling-stock alone and exclude other products, such as boilers, machine tools and bridge frames. Toshiba Rolling-stock and Mitsubishi Electric Mfg. are noted for their electric locomotives; and Niigata Iron Works, Kinki Rolling-stock, Teikoku Rolling-stock and Kiminami Rolling-stock are the foremost makers of freight and electric cars.

As they have so far been too dependent upon Government orders, rolling-stock companies have made no energetic efforts for expanding markets, elevation of efficiency and improvement of manufacturing processes. Many of their key posts have been held by former Government railway officials, whose managerial ability is questionable. Therefore, all these companies are apparently finding it difficult to work out counter-measures. Some of them at first planned to convert to bus body-making and other lines, but in vain. Thus, all of them have curtailed their employees by 20 or 30 per cent.

Rolling-stock manufacturers have recently filed a petition with the Government calling for at least Y10,000 million as rolling-stock expense. It is problematical, however, whether such a big appropriation will be provided under current fiscal conditions. The

National Railway Corporation, though formally separated from bureaucratic management, is not functioning as an independent concern but is still shackled by the national budget, official account procedures and many other red tape.

In this light, the interests concerned are planning to set up a rolling-stock holding company or an electrification work company. Manufacturers will offer their unsold cars to this company, which in turn will rent the cars thus

invested in kind to the National Railway Corporation. The planners anticipate that the company will be allowed to undertake electrification works by contract with the National Railway Corporation. This is, indeed, a good idea and will greatly contribute to the revival of the rolling-stock industry, but many complicated problems still remain unsolved. For instance, a big question is: Will necessary funds be provided from the United States Aid Counterpart Fund or will they have to be borrowed from city banks.

(2) Equipment Capacities of Rolling-stock Makers

(In units of standard cars per year)

	Steam Locomotives	Electric Locomotives	Passenger Coaches	Freight Cars
Nippon Rolling-stock	100	—	500	2,750
Kawasaki Rolling-stock	70	35	340	1,000
Kisha Seizo	90	—	220	1,000
Mitsubishi Heavy Industries	90	—	—	—
Hitachi	90	45	170	850
Toshiba Rolling-stock	—	40	—	—
Mitsubishi Electric Mfg.	—	35	—	—
Niigata Iron Works	—	—	150	750
Kinki Rolling-stock	—	—	170	700
Teikoku Rolling-stock	—	—	150	650
Kiminami Rolling-stock	—	—	—	450
Total	440	155	1,600	8,150

Lead & Zinc

Among a large variety of mineral products, lead, zinc and cadmium are spotlighted in the mining world. The reasons: (1) These metals are finding wider application than ever in the chemical and machinery industries, especially in the United States. This is clear from the fact that the price index (1897-1911 as 100) for the January-June period, 1949, was up 289 per cent for lead and 185 per cent for zinc, whereas the price rise for copper was only 45 per cent in that period; (2) Lead and cadmium, in particular, are gaining in importance as they are indispensable for atomic energy development, and there is increasing possibility of overseas shipments at favourable prices; (3) Japanese mines of these metals (they are available simultaneously from the same mines) have just reached maturity, whereas other metal mines have all been superannuated and their future outlook is rather dim in most cases.

With the abolition of price control for lead and zinc from September 2, market prices are rising steadily and will approach the international level. Therefore, business conditions will improve considerably for such companies as Toho Zinc, Mitsui Mining and Mitsubishi Mining, although their lead-zinc mining business has been in the red due to the rigid price control. Toho Zinc operates the Taishu Mine; Mitsui Mining, the Kamioka Mine; and Mitsubishi Mining, the Hosokura Mine (cf. Table 1). The Taishu Mine appears to be the most promising and deserves special attention as its zinc ore is claimed to contain a higher percentage of cadmium than in most other mines not only in Japan but in the world as well.

(1) Japanese Lead-Zinc Mines

Mine	Purity, %	Ore Deposits (1,000 M/T)	Lead Zinc	
			Lead Zinc (1,000 M/T)	Lead Zinc
Taishu	3.00	7,000	3,000	90
Kamioka	0.45	4,500	7,000	32
Kosokura	1.70	5,800	2,000	34
				116

Zinc output is estimated at 2,700 metric tons a month, while the demand is 3,250 metric tons or 20 per cent more. In the case of lead, supply exceeded demand temporarily after the war's end as some amount of bullion had been imported due to a miscalculation of supply-demand conditions. However, since 6,000 metric tons have recently been shipped abroad, stocks have disappeared. In normal conditions, monthly supply will be 800 metric tons, and demand about 1,200 metric tons.

The United States is importing about 25 and 36 per cent of her needs for lead and zinc, respectively. If her output increases in the future, Japan will be able to export these metals. In United States, zinc is now quoted at \$0.11 per lb, or Y71,000 f.o.b. per metric ton, and lead at \$0.15 or Y103,000 f.o.b. As the zinc price is about Y73,000 per metric ton, export trade is on a paying basis at current f.o.b. quotations. The break-even point will further improve if international prices advance. The export price for cadmium is as high as Y1,260,000 per metric ton.

(2) 1948 Supply & Demand of Lead & Zinc

(In 1,000 M/T)

	Supply	Demand
Zinc:— Domestic Output ..	612	939
Imports	349	—
Total	960	—
Lead:— Domestic Output ..	400	1,100
Scrap	470	—
Imports	300	—
Total	1,170	—

Japanese Cameras

Before the adoption of the Y360 rate, camera makers had been concentrating upon business adjustment and rationalization in fear that the single exchange rate perhaps might be fixed at such a high level as Y330. At that time it was generally held that even among the well-known brands, only 20 or 30 per cent, including Canon and Mamiya-6, might be able to break-even at the rate of Y330 to the dollar. When the Y360 rate was finally adopted, therefore, camera makers felt greatly relieved as a whole, and about 10 of them found that they could manage to break-even at the new rate, to say nothing of such first-class firms as Canon and Mamiya. It must be mentioned, however, that they could be on a paying basis somehow or other simply because they had on hand not a few orders concluded at the former price ratio of Y500 to the dollar. It was officially provided that the Y500 price ratio should be applied to those cameras for which contracts had been concluded prior to February 15 and which would be shipped before the end of July. It was with this in mind that camera makers directed their utmost efforts toward export promotion. Frankly speaking, it was problematical whether or not many of them would be able to continue production and exportation favourably at the Y360 rate.

As may be noted in the appended Table, camera exports, which eclipsed the 20,000 unit mark in March and April and jumped to over 30,000 units in the following three months, slipped to 10,282 units in August. These shipments were all contracted at the former price ratio of Y500, and not a single unit was handled at the Y360 rate. It can be said, therefore, that the effect, if any, of the new single exchange rate still remains to be seen in trade statistics.

As only 20 per cent of the total output is recognized for domestic sales, production figures are not much different from tabulated export statistics. In July, this year, for instance, 44,351 units were turned out, valued at Y95,550,000, of which small cameras comprised 39,672 units, valued at Y44,620,000. Including sales to CPO, exports totalled 36,022 units, valued at Y92,370,000, of which small cameras represented 30,782 units, valued at Y32,590,000. CPO sales alone aggregated 3,294 units, valued at Y39,280,000, of which small cameras numbered 500 (Y580,000).

Thus, it is seen that prospects are heartening for small cameras. But optimism is unwarranted as foreign buyers are reported to be calling for a reduction of the export price from \$2.20 to \$1.50, and opinion is apparently gaining ground that the best way for export promotion is to make first-class cameras like Canon. Japanese camera makers, on the other hand, are desiring that the sales prices of their small cameras in the United States will be unified.

	Camera Exports		1949-50
	1948-49	Value Units (Y1,000)	
April	776	3,587	25,174 57,330
May	4,099	7,109	31,944 77,932
June	2,915	8,190	39,902 90,606
July	3,508	9,688	36,022 92,368
August	2,920	11,177	10,282 63,725
September	5,280	12,569	
October	13,423	24,670	
November	11,936	33,703	
December	16,022	50,984	
January	12,409	46,165	
February	15,174	56,941	
March	26,090	108,767	
Total	114,554	373,559	145,324 381,982

Japanese Shipbuilding

With the fifth postwar building programme under way with financial aid from the United States Aid Counterpart Fund, a long step has been made in the direction of shipping self-supply for Japan. As shipping interests are concentrating upon the construction of superior ocean-going craft, shipyards are enjoying an exceptional boom while many other industries are now in depression due to a series of unfavourable factors, such as the abolition of the price difference subsidy, pound devaluation, shrinkage of export trade, accumulation of dead stocks, tight money and labour troubles.

The 46 ships scheduled in the fifth programme are divided among shipping companies partly in accordance with applications and partly by lottery.

The scheduled ships are distributed to shipping firms with the utter disregard of scale, efficiency and what not, i.e. one vessel or two for each concern. It can be said, therefore, that the number of allotted craft does not indicate the efficiency or competitive power of ship operators. Even without aid from the Counterpart Fund or any other official source, leading shipping companies are well able to build their own ships with their own money.

The allotments to shipbuilding companies, however, are made in accordance with capacity. Mitsubishi Heavy Industries, for instance, obtained the largest quota of 15 ships, or one-third the scheduled craft, the total cost estimated at Y7,962 million. In addition, six export ships, valued at Y6,741 million, are under construction at Mitsubishi shipyards. The aggregate orders on hand, therefore, add up to nearly Y15,000 million. Including repair works and engines, Mitsubishi's backlog of orders will reach Y20,000 million, or sufficient for one and a half years' operation.

The second largest quota of 8 ships, valued at Y4,263 million, went to Hitachi Shipbuilding. The Sakurajima Shipyard will build four ships, valued at Y2,665 million, or probably the largest order for a single shipyard. It is to be noted that Hitachi, which has thus far specialised in repair works, is expected to concentrate upon new building in the future, although it has received no foreign order for large craft.

In addition to four export ships (valued at Y3,073 million) under construction, Mitsui Shipbuilding secured an order for four ships, valued at Y1,877 million. Its backlog adds up to

Japan's Trade on Private Basis

SCAP has taken all necessary measures to return Japan's trade to the hands of private business enterprises and to have such controls as may be found useful to impose in the interest of the national economy transferred to the authority of the Japanese Government. As from December 1, this year, all Japanese exports will be placed on a private trade basis, and as from January 1, 1950 all imports into Japan will be handled by private enterprise.

The new trade system will provide for three steps only as regards Japanese exports. Under this system the buyer and supplier will complete negotiations on the quantity and prices before drawing up a contract independent of the Government. The private exporters will have to arrange for his financing through commercial banks authorised to handle foreign exchange. There are licensed 10 foreign and 11 Japanese banks to handle foreign exchange. Post audits will be carried out by SCAP and Japanese Government agencies to see that these transactions are concluded in conformity with the authorised procedures of the International Trade and Industry Ministry. This post-transaction checking will in no way hinder or delay the normal conduct of a deal.

As regards imports into Japan, private import procedure in general will require the importer to apply to a foreign exchange bank for the purchase of the necessary foreign exchange allocated by the Government.

For imports and exports which do not require the use of Government allocated foreign exchange they may be arranged through the individuals concerned without the necessity of going through any procedure.

Japan will have a free hand over the control or disposal of her foreign exchange when SCAP transfers control to the Japanese Government beginning December 1. The authority will be transferred to the Japanese Foreign Exchange Control Commission.

Y4,950 million. Harima Shipbuilding's unfilled orders aggregate Y3,046 million, including three ships (Y1,982 million) under the fifth programme as well as on export vessel (Y1,064 m.).

Compared with these four leading builders, other interests received small orders. Uraga Dock was allotted only two ships, but it is building one Y929,000,000 vessel for export purpose. Kawasaki Heavy Industries applied for eight ships but got only four ships, or far smaller than its capacity. Kawanami Industry's quota of three ships, however, is unexpectedly large. Nippon Steel Tube acquired two vessels, although it applied for seven ships.

Not a single ship was allotted to Ishikawajima Heavy Industries. Prospects are not too gloomy for this company, for it will receive orders for new ships from the Mitsui Sempaku and the Iino Kaiun, both of which are planning to build ships of their own account. Furthermore, as it is the largest and most efficient turbine maker, its plants will be flooded with orders for turbines from other shipyards.

Abolition of Floor Prices in Japan

Floor prices for Japanese export products were abolished as of October 26, 1949. This action is expected to lead to further vitalization of Japanese trade and will effectuate the return to normal commercial practices.

The floor price system was established and made generally applicable to all Japanese exports with the institution of private trade in August 1947 for the primary purpose of maintaining export prices at world market levels in order to prevent flight of foreign exchange and to insure against unfair competition or dumping in the absence of a single exchange rate. To ensure now maximum return of foreign exchange for Japanese exports and to safeguard against unfair commercial practices which might arise because of the aboli-

tion of floor prices the Japanese Government is charged with responsibility for exercising general surveillance over Japanese exports.

The removal of floor prices will permit the return of competitive pricing at the authorized exchange rate. General pricing procedures will be based on the general principle that export prices should not be less than comparable prices for like products offered in Japan. For items produced solely for export and not offered on the domestic market, quoted prices should not be less than the cost to the manufacturer of the product in Japan, plus an addition for handling charges and reasonable profit. To facilitate operations of the new program a wide dissemination of pricing information to local agencies is contemplated and in addition the Japanese Government will be made responsible for advising exporters of Japanese products as to regulations concerning unfair competition existent in countries

of destination together with liabilities thereunder.

Abolition of floor prices will apply to all commodities with the temporary exception of raw silk and silk piecegoods. Silk piecesgoods have been defined as any silk textiles containing raw silk except 100 per cent spun silk and 100 per cent silk noil. Silk prices have been guaranteed up to December 31 under previous SCAP commitments. Floor prices on silk will be lifted on January 1, 1950.

The current action of the Supreme Commander following closely upon his statement that no change in yen-dollar rate is contemplated will permit Japanese to increase the volume of sales to all markets and to resume full scale export activities. The abolition of floor price regulations reflects a progressive effectuation of previously announced SCAP policy to return responsibility for economic and governmental activities to the Japanese.